

October 26, 2020

## Raajratna Metal Industries Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action <sup>1</sup>
Short Term Fund Based-PC/PCFC/FBD/FBN/PSCFC	308.00	292.00	[ICRA]A1; reaffirmed
Short Term Non-fund Based Limits	40.00	40.00	[ICRA]A1; reaffirmed
Unallocated Limits	2.00	18.00	[ICRA]A (Stable)/A1; reaffirmed
<b>Total</b>	<b>350.00</b>	<b>350.00</b>	

\*Instrument details in Annexure-1

### Rationale

The rating reaffirmation considers the comfortable financial risk profile of Raajratna Metal Industries Ltd (RMIL) characterised by strong coverage indicators and debt protection metrics. The rating is supported by its sustained healthy profitability, which resulted in higher cash accruals enabling RMIL to maintain a comfortable liquidity position. The rating continues to positively factor in the extensive experience of the promoters, the company's track record in the stainless steel industry spanning more than three decades and its established business relationships with a geographically diversified clientele based in more than 60 countries. Further, ICRA notes the company's technical expertise in manufacturing higher value-added stainless steel wire and its presence in the high precision product segments with critical applications in its diversified end-user segments.

The rating, however, factors in the vulnerability of RMIL's operations to the inherent cyclicity in the stainless steel industry as well as the intense competition in export markets such as the USA and the EU. The rating considers the regulatory changes in export markets such as imposition of tariffs by the USA on Indian stainless steel in June 2018. However, the EU has discontinued the anti-dumping duty imposed in FY2014 from November 2018. ICRA also notes the moderation in RMIL's FY2020 top line by 22%, on a YoY basis, following the lockdown imposed in March 2020, reduced job-work activities with focus on value added products and lower realisations. Further, the company's profitability is exposed to fluctuations in metal prices due to supply constraints and limited bargaining power with suppliers. Nevertheless, it has been able to pass on the same to customers in the past. RMIL's profitability remains exposed to foreign currency fluctuations with exports contributing to ~70% of sales, although the same is mitigated by the natural hedge (~30% imported raw material), along with a defined hedging mechanism. Further, its working capital intensity has remained high owing to long credit period extended to customers and high inventory levels. However, RMIL's healthy liquidity position in the form of large unutilised working capital limits provides comfort. ICRA notes that the company has provided corporate guarantee towards debt of its subsidiary in Indonesia. Further, it has advanced large inter-corporate deposits (interest bearing) to an unrelated entity in FY2019 from its surplus cash flows. Any further indirect exposures, advances or investments to unrelated parties would be a key credit sensitivity.

<sup>1</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

ICRA expects RMIL to continue to benefit from its established track record in the stainless steel industry and diversified customer base.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters and established track record in stainless steel industry** – RMIL is promoted by Mr. Babulal Sanghvi and Mr Arvind Sanghvi. The promoters, with their extensive experience of more than three decades in the steel industry, established the company in 1988. It has three wholly-owned subsidiaries—Raajratna Stainless Wire Inc. (RSW) based in the USA, Erre Inox Srl (EIS) based in Italy and PT Raajratna Wire (PTRW), Indonesia. While RSW and EIS are marketing arms of the company, PTRW manufactures stainless steel wires in Batam, Indonesia.

**Healthy operating profitability, comfortable capital structure and debt protection metrics** – The company's operating profitability improved over the last few years owing to increasing sales of higher value-added products such as profile wires that were added to its product mix. In line with improved operating profitability, the net profitability gradually improved to 13% in FY2020. Moreover, the debt levels reduced in FY2020 and healthy accruals have helped in a sustained improvement in the capital structure with adjusted gearing<sup>2</sup> at 0.2 times as on March 31, 2020 vis-à-vis 0.4 times as on March 31, 2019. Further, its interest and debt coverage metrics remained comfortable with interest coverage of 13.0 times and NCA/Debt of 172%, while the adjusted Total Debt/OPBDITA stood at 0.8 times in FY2020.

**Technical expertise to manufacture high precision products and high value-added steel wires used in diverse end-user industries** – RMIL manufactures stainless steel-based products such as wires of various grades, compositions and specifications, which are used for making a wide variety of products such as kitchenware, springs, chains, nails, balls, filters, wire mesh, surgical needles and surgical equipment. Its product mix includes stainless steel bright bars, fine wires, nickel wires and stainless steel rebars. The product mix is dominated by stainless steel wires, which drove ~90% of the total sales, followed by bright bars (~4%) over the recent few years.

**Established business relationships with customers and high geographical diversification with sales across more than 60 countries worldwide** – The company has a diversified customer base spread across ~60 countries, with its top 10 clients generating ~14% of sales in FY2020. Additionally, RMIL's marketing efforts draw support from its marketing arms in the USA, Italy and Indonesia. Since the company sells its products directly through its marketing representatives in its target markets without any traders or merchant exporters in between, RMIL enjoys established business relationships with its customers, translating into repeat orders. Moreover, since all sales negotiations are carried out directly by the company, it is able to manage pricing and quality better, leading to healthy margins.

### Credit challenges

**Operations exposed to cyclicity in stainless steel industry and competition in export markets** – Indian stainless steel wire manufacturers and exporters such as RMIL face stiff competition from the Chinese, Taiwanese and Korean exporters in key markets including the EU and the USA. In addition, the operations remain exposed to the cyclicity faced by the downstream users of RMIL's products. Owing to economies of scale, the Chinese and Korean manufacturers dominate the markets in certain product segments, while the Indian manufacturers enjoy a competitive advantage with their

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<sup>2</sup>Adjusted debt includes corporate guaranteed debt of subsidiary and excludes unsecured loan infused by promoters

consistent compliance to quality specifications, higher quality and better after sales services for specialised and high precision products.

**Operations in international markets vulnerable to changes in regulations and Government policies** – RMIL derives ~70% of its total revenue from exports. As it is predominantly an export player, its operations remain exposed to changes in duty structures in the importing countries. For instance, USA imposed ~25% tariffs on Indian stainless steel wires in June 2018, at par with stainless steel wire manufacturers in other countries. The EU had imposed an anti-dumping duty on Indian stainless steel wire manufacturers in November 2013, which was discontinued in November 2018. About 50% of RMIL's exports are directed towards the EU and US markets, exposing the company's operations to changes in regulations in these markets.

**Profitability exposed to fluctuations in metal prices and foreign exchange fluctuations** – RMIL's profitability is exposed to fluctuations in raw material prices, which form a significant percentage of the average selling price. Nickel forms ~10-20% of stainless steel in terms of weight (depending on the grade of the product), but constitutes up to 60% of the total cost in terms of value. Thus, the company's profitability is exposed to fluctuations in nickel prices. RMIL, however, has a policy of booking raw material purchases against customer orders and the prices are quoted as per the prevalent metal prices, insulating RMIL's profitability against price volatility to a certain extent. Further, as a predominantly export player, RMIL's operations remain exposed to fluctuations in foreign currency rates. However, the company has a defined hedging mechanism to reduce the risk. Further, its imports form ~30-40% of the total raw material purchases and there remains some degree of natural hedge.

**High working capital intensity** – Owing to the established business relationships with customers and competition, the company extends a credit period of up to 60-90 days. Extended credit of up to 120-180 days is given to RMIL's wholly-owned subsidiaries—RSW (USA), EIS (Italy) and PTRW (Indonesia). Although the company maintains limited finished goods inventory since production is mainly order backed, it maintains raw material inventory to mainly ensure timely completion of orders. This results in high working capital intensity of ~45-50%.

**Exposure by way of indirect support to foreign subsidiaries and unrelated parties** – ICRA notes that RMIL has provided a corporate guarantee towards debt of its subsidiary in Indonesia. Further, it has advanced large inter-corporate deposits (interest bearing) to an unrelated entity in FY2019 from its surplus cash flows. Any further indirect exposures, advances or investments to unrelated parties would be a key credit sensitivity.

### **Liquidity position: Strong**

The company's cash flow improved in FY2020 owing to moderation in working capital requirement, along with the healthy operating profitability. The free cash flows remained positive in FY2020 on account of moderate capex and limited outgo towards finance cost. The liquidity position remains **strong** as reflected by the average utilisation of working capital facilities at 15% of the sanctioned limits of Rs. 220 crore. As on June 2020, the utilisation was negligible. Hence, RMIL has access to working capital limits of Rs. 220 crore with no repayment obligations and no major capex plans.

## Rating sensitivities

**Positive triggers** – The rating might be upgraded if the cash accruals improve significantly, followed by improvement in sales volume and/or realisation with continuous introduction of higher value-added products.

**Negative triggers** – Negative pressure on RMIL’s ratings could arise if there is any deterioration in its financial risk profile due to large debt-funded capex or significant investment/advances to associates or potential acquisition target results in additional debt.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable.
Consolidation/Standalone	ICRA has followed limited consolidation approach wherein the debt of subsidiary, which is backed by corporate guarantee of RMIL, has been considered while arriving at the rating.

## About the company

Incorporated in 1988, Raajratna Metal Industries Limited (RMIL) primarily manufactures stainless steel wires and stainless steel bright bars, as well as speciality products such as fine wires, nickel wires and stainless steel rebars. RMIL has two manufacturing units near Kalol in Gujarat, with a combined installed manufacturing capacity of 42,000 MTPA.

The company has three wholly-owned subsidiaries—Raajratna Stainless Wire Inc. (RSW) based in the USA, Erre Inox Srl (EIS) based in Italy and PT Raajratna Wire (PTRW), Indonesia. While RSW and EIS are marketing arms of the company, PTRW manufactures stainless steel wires in Batam, Indonesia. RMIL and its subsidiaries form the Raajratna Group.

## Key financial indicators (Audited) - Standalone

	FY2019	FY2020
Operating Income (Rs. crore)	899	703
PAT (Rs. crore)	72	91
OPBDIT/ OI (%)	15.5%	17.1%
RoCE (%)	22.1%	19.1%
Total Debt/ TNW (times)	0.3	0.1
Total Debt/ OPBDIT (times)	1.1	0.5
Interest Coverage (times)	10.7	13.0

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021 October 26, 2020	Date & Rating in FY2020 August 19, 2019	Date & Rating in FY2019 July 26, 2018	Date & Rating in FY2018 August 28, 2017
1 Short Term Fund Based-PC/PCFC/FBD/FBN/PSCFC	Short Term	292.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
2 Short Term Non Fund Based Limits	Short Term	40.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
3 Unallocated Limits	Long Term/Short Term	18.00	-	[ICRA]A(Stable)/A1	[ICRA]A(Stable)/A1	-	-

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term Fund Based-PC/PCFC/FBD/FBN/PSCFC	-	-	-	292.00	[ICRA]A1
NA	Short Term Non Fund Based Limits	-	-	-	40.00	[ICRA]A1
NA	Unallocated Limits	-	-	-	18.00	[ICRA]A(Stable)/A1

Source: RMIL

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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