RR MetalMakers India Limited

March 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6.50	CARE B+; Stable	Assigned
Short Term Bank Facilities	18.50	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of RR MetalMakers India Limited is constrained by the highly competitive and cyclical nature of industry, moderate albeit fluctuating scale of operations and low networth base and thin operating profitability margin with losses at net level and susceptibility of profit margins to price fluctuation in prices of products traded. The ratings further considered its weak capital structure and weak debt coverage indicators, working capital intensive nature of operations and its stretched liquidity.

The ratings, however, derive strength from the experienced & resourceful promoters and their long track record of operations in steel industry. The established relationship with diversified customer base and moderately concentrated supplier base also provides strength to its ratings. Ratings also takes note of planned debt funded capex of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operation over Rs. 150 crores on sustained basis.
- Improvement in operating margin to above 5.00% and net profit margin to above 3.00% on a sustained basis.
- Improvement in capital structure with overall gearing below 2.0x on sustained basis.
- Timely conversion of iron-ore inventory into sales with profits.

Negative factors

- Substantial elongation in working capital cycle marked by operating cycle days of above 75 days.
- Deterioration of current ratio to less than 1.00x on sustained basis
- Significant deterioration in credit profile of the company as a result of availing of higher than envisaged debt for its planned capex.
- Additional debt being availed resulting in deterioration in overall gearing exceeding 5.00x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that entity will continue to benefit from its experience of the promoters along with long track record of operations in steel industry along with established relationship with diversified customer base.

Detailed description of the key rating drivers:

Key weaknesses

Moderate albeit fluctuating scale of operations and low networth base

The Total operating income (TOI) of RRMMIL remained moderate and fluctuating in the past. RRMMIL was previously involved in trading of steel products and iron ore. However, in FY21, there were several restrictions on the trading of iron ore. This coupled with the fluctuating demand and prices of steel led to fluctuating scale of operation in past (FY19-22). The TOI of RRMMIL declined from Rs. 124.20 crore in FY22 to Rs. 84.17 crore in FY23, (registering a decline of 32.23%) due to the lower demand of their steel products and fluctuations in steel prices. resulting which the scale continues to remain moderate. Further during 9MFY24 (from April to December 2023) the company recorded sales of Rs. 76.56 crore due to an industry wide increase in demand lead by stable prices of steel. Further, the tangible net-worth base remained low at Rs. 6.43 crore as on March 31, 2023 (vis-à-vis Rs. 6.46 crore as on March 31, 2022).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderate operating margin with losses.
The profitability margins of RRMMIL remained low and fluctuating as it directly linked with the raw material prices of steel. Further, operating profit margin of RRMMIL largely remained moderate majorly due to trading nature of the business where there is limited value addition along with intense competition in the steel industry.
The PBILDT margin, improved from 0.52% in FY22 to 3.42% in FY23 mainly on account of improved realisations on traded goods. With above coupled with high interest cost and depreciation cost, the company continued to report losses at net level in FY23. Further for 9MFY24, The PBILDT margins stood at 6.90% and PAT margins stood at 1.50%.

Weak capital structure and debt coverage indicators
The capital structure of the company continues to remain leveraged marked by higher working capital borrowings and higher purchase of goods on LC given its trading nature of business. Also, given its limited value addition as a result of trading nature of business debt coverage indicators continue to remain weak. RRMMIL's overall gearing stood at 3.35x as on March 31, 2023, as against 3.38x as on March 31, 2022.
Further, TDGCA stood negative in FY22 and FY23 due to negative gross cash accruals in both the years. The interest coverage ratio stood weak, however improved marginally to 0.72x in FY23 (vis-à-vis 0.23x in FY22). The networth base further improved to Rs. 7.70 crore as on December 31, 2023, and the overall gearing was at 4.09x as on December 31, 2023. Lead by improvement in GCA as a result of stable prices of steel and improvement in demand for its product sold, total debt/GCA and interest coverage ratio improved and stood moderate at 5.86 times and 1.45 times in 9MFY24.

Project risk due to debt-funded capex
The company is planning to purchase a land of 10 acres in FY24 at Wada, the company plans to set up dry fruits processing plant on half of the land and in other half the company plans to make soft drink plant and bottled water. 60% of the soft drink manufactured will be under a reputed brand and the remaining 40% under the company's brand.
The promoters also have prior experience of trading of dry fruits and will be setting up processing and packing units for American almonds and walnuts. The products will be imported, processed and packed into 20g, 50g and 100g packs. The plant is to be set up in Wada and is expected to start in September 2024.
The planned capex is about Rs. 80 crores. The company plans to avail a term loan of Rs. 40 crores and rest will be through issuance of rights and preference shares which is expected in April 2024. The promoter holding after the equity infusion is expected to reduce to about 50%. The company will also receive subsidy for the Wada plant at about 80% of land, building and machinery.

Working capital intensive nature of operations
The operations of RRMMIL stood working capital intensive in nature with majority of funds being utilized in inventory, since the company is required to maintain a steady level of inventory for a wide portfolio of products in order to meet the regular flow of demand. The inventory days deteriorated to 98 days in FY23 (vis-à-vis 76 days in FY22). The company also provides a credit period 30-45 days to its customers due to intense competition in the industry. The collection period also deteriorated from 39 days in FY22 to 49 days in FY23. RRMMIL had receivables of Rs. 7.22 crores, out of which Rs. 0.90 crores are receivables aged more than 180 days. As on December 31, 2023, the total receivables stood at Rs. 6.01 crores.

Highly competitive and cyclical nature of industry
RRMIL is operating in a highly competitive industry due to the presence of various organized and unorganized players involved in the trading of various steel products. Although, over the years the industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry. Also, the steel industry is sensitive to the shifting business cycles including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Key strengths
Long track record of operations in manufacturing & trading of steel products
Established in the year 1995, RR Metalmakers is primarily engaged in trading of iron ore, steel and steel products. So RRMMIL possesses a long track record of about three decades of operations in manufacturing & trading of various steel products. Until FY21, the company was involved in only trading of steel and iron products. However, since FY21 onwards, it set up its manufacturing units in Gujarat which has a capacity of 800 MT per month and started manufacturing ERW pipes and roofing sheets. The company has a portfolio of over 20 products and cateres to customers across the globe over the years. As a result of its long-standing existence, the company has established long-term relationships with its various customers, suppliers and other stakeholders.

Experienced and resourceful promoters
The company is promoted by Mr. Virat Shah and Mr. Alok Shah. RRMMIL possesses a long track record of about three decades of operations in manufacturing & trading of various steel products. The company has a portfolio of over 20 products and has catered to over customers across the globe over the years. As a result of its long-standing existence, the company has established long-term relationships with its various customers, suppliers and other stakeholders.

Established relationship with diversified customer base and moderately concentrated supplier base.
RRMMIL has a portfolio of over 20 products with products ranging from profile sheets, corrugated sheets and ERW pipes. As a result, the customer base for the company remains diversified. The customer profile of the company is well diversified with the

top 10 customers comprising 14.91% of the net sales in FY23. The supplier profile of the company is also well diversified, however TATA steel contributed to 34.57% of the Top 10 purchases in FY23.

Liquidity: Stretched

The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. The company reported Gross Cash Accruals (GCA) of Rs. 1.85 crore during FY23 against repayment obligations of Rs. 3.20 crores in same year. However, the company has already repaid Rs. 2.76 crores of its debt repayment obligation as on December 31, 2023. Its working capital limits were fully utilized during past twelve months ended December-2023.

The current ratio stood low at 1.00x as on March 31, 2023 (vis-à-vis 1.23x as on March 31, 2022) while the quick ratio stood weak at 0.38x as on March 31, 2023 (vis-à-vis 0.57x as on March 31, 2022) owing to higher inventory maintained by the company. The company also had cash and liquid investments of Rs. 2.04 crores as March 31, 2023, and Rs. 0.06 crores as on December 31, 2023.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel
Wholesale Trading

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Diversified Metals	Diversified Metals

Established in the year 1995, RR Metalmakers is primarily engaged in trading of iron ore, steel and steel products. The company is promoted by Mr. Virat Shah and Mr. Alok Shah. RRMMIL is primarily engaged in trading of roofing sheets, galvanised coils, wire rods etc. (contributing around 89.96% of the total income for FY23). The company is an authorized distributer of JSW, TATA and Arcelormittal through its facilities located at Wada and its manufacturing facility is located at Ahmedabad.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	124.20	84.17	76.56
PBILDT	0.66	2.88	5.28
PAT	-3.02	-1.03	1.14
Overall gearing (times)	5.91	5.53	4.09
Interest coverage (times)	0.23	0.72	1.45

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.50	CARE B+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	18.50	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-Letter of credit	ST	18.50	CARE A4				
2	Fund-based - LT-Cash Credit	LT	6.50	CARE B+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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