

RR MetalMakers India Limited (Revised)

May 09, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|------------------|---------------------|---|
| Long Term Bank Facilities | 6.50 | CARE B+ (RWN) | Placed on Rating Watch with Negative Implications |
| Short Term Bank Facilities | 18.50 | CARE A4 (RWN) | Placed on Rating Watch with Negative Implications |

Details of instruments/facilities in Annexure-1.

CARE has placed the rating of bank facilities of RR MetalMakers India Limited (RRMIL) on "Rating Watch with Negative Implications (RWN)" following the company's announcement dated April 30, 2024, of Corporate Insolvency Resolution Process (CIRP) initiated against the company by one of its operational creditors on April 22, 2024. Subsequently, the company has filed an Appeal before the Hon'ble National Company Law Appellate Tribunal, Principal Bench, New Delhi ("NCLAT"). The Appeal was accepted by the NCLAT on April 24, 2024, ordering that no further steps shall be taken in the CIRP initiated against the Company till the next hearing date. Considering the amount involved, any payment arising out of the said proceedings would remain a key monitorable as significant outflow may negatively impacts the financial risk profile of the company.

CARE will monitor the progress of the said proceedings and evaluate the impact on company's operational and financial performance and review the rating once clarity emerges of the same.

Rationale and key rating drivers

The reaffirmation in the ratings 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.
- Any adverse outcome of court proceedings impacting the liquidity position of the company

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers:

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

Key weaknesses

CIRP Proceedings filed against the company

The CIRP has been initiated against the company by one of its operational creditors on April 22, 2024. The total amount of dues stood at ~Rs.4.36 crore including ~Rs.2.16 crore against operational dues and ~Rs.2.21 crore as demurrage. Subsequently, the company has filed an Appeal before the Hon'ble National Company Law Appellate Tribunal, Principal Bench, New Delhi ("NCLAT"). The Appeal was accepted by the NCLAT on April 24, 2024, ordering that no further steps shall be taken in the CIRP initiated against the Company till the next hearing date. Considering the amount involved, any payment arising out of the said proceedings may negatively impacts the financial risk profile of the company.

Moderate albeit fluctuating scale of operations and low network 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).

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 network 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 caters 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 distributor 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+ (RWN) |
| Non-fund-based - ST-Letter of credit | | - | - | - | 18.50 | CARE A4 (RWN) |

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 2024-2025 | 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 |
| 1 | Non-fund-based - ST-Letter of credit | ST | 18.50 | CARE A4 (RWN) | - | 1)CARE A4 (13-Mar-24) | - | - |
| 2 | Fund-based - LT-Cash Credit | LT | 6.50 | CARE B+ (RWN) | - | 1)CARE B+; Stable (13-Mar-24) | - | - |

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.

Contact us

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About us:

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