# Rajnandini Metal Limited (Revised)

May 16, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 130.00 (Enhanced from 100.00) | CARE BB+; Stable | Revised from CARE BBB-; Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the ratings assigned to Rajnandini Metal Limited (RML) on account of decline in the profitability of RML in Q4FY24 as in Q4FY24 PBILDT of the company stood at Rs.0.50 crore and uncertainty and the possible impact on the credit profile of the company in view of the summon issued by Enforcement department to the promoters of RML requesting information on RML. However as articulated by management and lenders of the company, it has been observed that operations and banking activities of RML are running normal. Further as confirmed by the RML's management, the company has not been subject to any search or seizure and none of its bank accounts has been freezed and also the requisite information has been submitted by the promoters of the company to ED on April 19, 2024.

The ratings assigned to the bank facilities of Rajnandini Metals Limited (RML) also remain constrained due to small track of operations, RML's presence in a competitive downstream non-ferrous metal product industry resulting in low bargaining power, thin profitability margins, susceptibility to volatile raw material prices and thin profitability margins. The ratings however, continues to derive strength from the qualified and experienced promoter group along with established track record of operations, reputed clientele albeit with client concentration risk, and comfortable operating cycle.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Increase in the total operating income beyond Rs.1200cr or PBILDT margin of 3%
- Improvement in overall gearing to below 1.5 times on sustained basis

### Negative factors

- Increase in working capital cycle beyond 90 days
- Increase in gearing above 2.5x
- Any Negative development by Enforcement Directorate impacting the credit profile of the company.

**Analytical approach:** Standalone

**Outlook:** Stable

Stable outlook reflects that the company will continue to maintain the financial risk profile and benefit from experience of the promoters in the industry.

## Detailed description of the key rating drivers:

## Key weaknesses

**Summon from Enforcement Directorate**

During April 2024, Enforcement directorate has issued summon to the promoters of RML requesting financial information about the RML. The said information was sought due to financial transaction by RML with another company being subject to ED investigation. However as confirmed by the RML management, the company has not been subject to any search or seizure and none of its bank accounts has been freezed and also the requisite information has been submitted by the promoters of the company on April 19, 2024. Further as per discussion with the lenders of the company, the operations and banking activities of RML are running normal and regular.

**Small track record of operations:**

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

Rajnandini Metal Limited has started their manufacturing unit in November 2019 and prior to that company was engaged in business of trading of scrap for all types of ferrous and Non-ferrous Metals such as Copper Wires, ingot scrap, and other related items used in various electrical and industrial applications. Due to small track record of the company in manufacturing segment limit the financial flexibility of the company.

**Moderation in the financial risk profile as reflected by decline in profitability margin and increase in gearing level**
There has been moderation in the financial risk profile of the company during FY24 as reflected by decline in the profitability margin and increase in gearing. There has been considerable decline in the profitability margin during Q4FY24 as reflected by PBILDT margin of 1.43% as compared to 2.95% PBILDT margin during Q3FY24 and further despite of the increase in net worth owing to accretion of profits, the overall gearing of the company has increased to 1.77x as on March 31, 2024 as compared to 1.74x as on March 31, 2023. The increase in gearing is due to increasing working capital requirement funded through higher debt level. Also, the decline in profitability during Q4FY24 was majorly due to unavailability of raw material in the market and also due to procurement of inferior quality raw material leading to higher processing cost. Also due to price fluctuation and pricing mismatch between contractual agreement for supply and existing raw material inventory, the profitability is expected to remain subdued during Q1FY25.

**Susceptibility of profitability to volatility in raw material prices:**
The primary raw materials for the company are copper scrap. Copper scrap contributes around 90% of the total raw material cost consumed during the past three years ended FY24, the scrap is purchased at the prevailing market rate depending on the quality of scrap. However, the absence of any long-term contracts and lag effect in the order of raw materials and delivery to the manufacturing facilities exposes the company to the vagaries of the commodities price cycle. Although the company tries to match the procurement with the order being received and normally an equivalent quantity of scrap on the date of order to reduce the pricing mismatch. The prices of these raw materials are market driven and have been reflecting high volatility in the recent past. However, to reduce the risk of raw material price fluctuations, RML procures raw materials based on orders it receives from customers and the sale price of the copper rods is based on the raw material price on the day of the order received.
PBILDT margin of the company moderated and stood at 1.98% in FY24 from 2.56% in FY23 on account of raw material price volatility. The PAT margin of the company also declined and stood at 1.25% in FY24 as against 1.32% The profitability margins of the company dependent on fluctuation of raw material prices coupled with high competition prevailing in the industry. Out of the total cost, 90% comprise of raw material (copper) where the prices are volatile.

**Highly fragmented and Cyclic nature of the copper industry:**
The industry for metal products is highly fragmented with a large number of local unorganized and organized players in the market. Copper is part of a metal industry which is cyclical and is sensitive to the shifting business cycles including changes in the general economy, interest rates and seasonal changes in the demand and supply. The producers of metal construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in metal prices. Hence, the margins continue to remain under pressure due to fragmentation and low bargaining power across the industry.

## Key strengths

**Experienced and resourceful promoter group with an established track record of operations in the industry:**
Rajnandini Metal Limited (RML) was incorporated on March 2010 by Mr. Mohan Sharma. Mr. Het Ram, aged 40 years, Promoter & Managing Director of RML has a rich experience of 20 years in the similar line of business. Mr. Ashok Kalra, is another Director of RML. Mr. Manoj Kumar Jangir 40, aged, is the Chief Financial officer of RML. He has vast experience of over 17 years in finance, audit and accounts. Apart from this the promoters of the company were earlier engaged in trading of copper material and therefore have long experience in copper industry and relationship with the suppliers.

**Established relations with reputed clientele albeit with client concentration risk:**
The company’s business risk profile continues to be benefited from its association with reputed clientele along with healthy brand visibility in CCR rods, wires and cables segment. RML’s major clientele include Kei Industries Ltd., Svarn Infratel Private Limited, RML has offered high quality services/ products which has led to repeat business from key customers.
The company’s top 5 customers contributed ~66% of the total operating income in FY23 (refers to the period April 1 to March 31) and 76% as on March 31, 2022. This exposes RML’s revenue growth and profitability to its customer’s future growth plans.

**Growing scale of operations albeit stable gross cash accruals:**
The company's operating performance, as indicated by total operating income, has seen a slight improvement, rising from Rs. 1036.03 crores in FY23 to Rs. 1220.93 crores in FY24. Gross cash accruals also improved slightly, from Rs. 15.19 crores in FY23 to Rs. 16.45 crores in FY24, though they remained largely consistent with the previous fiscal year.

**Comfortable operating cycle:**
RML working capital cycle remain moderate as reflected by operating cycle of ~37 days at the end of FY24 & 21 days in FY23. The company procures raw material from local vendors and receive very low credit period of 7 to 12 days and have to rely on the working capital limits and own funds to meet the working capital requirement. RML offer low credit period to its customers and is also holding inventory for period of around 10-20 days. Working capital utilization also remain around 80-90% during the last 12 months ended April 30, 2024. However, with the growing scale of operations, there is increase in working capital requirement, leading to deterioration in the overall gearing as on March 31, 2024.

**Liquidity**: Adequate
RML's liquidity remained adequate marked by moderate utilization of its fund based working capital limits at around ~80-90% in the trailing 12 months ended April 2024 and above unity current ratio as on March 31, 2024. Further the company has low repayment of Rs.2.37 cr in FY24 as against GCA of Rs.16.45 crore in FY24 which expected to retain in near future. With the increasing scale of operations and moderate GCA the liquidity appears moderate.

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

## Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Non Ferrous Metal

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Commodities | Metals & Mining | Non - Ferrous Metals | Copper |

Rajnandini Metals Ltd was incorporated in March 2010 by Mr. Mohan Sharma. RML is in the production of copper rod and wires with annual capacity of 4500 ton per month (presently operating at 50% capacity). The company has set up its manufacturing plant in Nov'19 and prior to that company was engaged in business of trading of scrap of all types of ferrous and Non-ferrous Metals such as Copper Wires, ingot scrap, and other related items used in various electrical and industrial applications.
Now RML is engaged in manufacturing of Copper Rods, Wires etc. Product Portfolio of RML includes diversified product range which includes variety of grades, thickness, widths and standards of copper according to customer specifications.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | March 31, 2024 (A) |
|---|---|---|---|
| Total operating income | 1,028.25 | 1,036.03 | 1220.93 |
| PBILDT | 19.19 | 26.56 | 24.21 |
| PAT | 10.03 | 13.66 | 15.24 |
| Overall gearing (times) | 1.74 | 1.74 | 1.77 |
| Interest coverage (times) | 4.83 | 3.65 | 2.13 |

A: Audited; 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 | | - | - | - | 120.00 | CARE BB+; Stable |
| Fund-based - LT-Term Loan | | - | - | January 2028 | 10.00 | CARE BB+; Stable |

## 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 | Fund-based - LT-Cash Credit | LT | 120.00 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (28-Nov-23)<br><br>2)CARE BBB-; Negative (14-Jun-23) | 1)CARE BBB-; Stable / CARE A3 (30-May-22) | - |
| 2 | Fund-based - LT-Term Loan | LT | 10.00 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (28-Nov-23)<br><br>2)CARE BBB-; Negative (14-Jun-23) | 1)CARE BBB-; Stable (30-May-22) | - |

LT: Long 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 | Fund-based - LT-Term Loan | Simple |

**Annexure-5: Lender details**

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|---|
| 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:**
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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