Rajnandini Metal Limited

May 30, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	23.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Assigned
Total Bank Facilities	**28.00 (Rs. Twenty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rajnandini Metals Limited (RML) factor in the qualified and experienced promoter group along with established track record of operations, reputed clientele albeit with client concentration risk, high growth in the total operating income along with moderate working capital cycle and comfortable operating cycle. The ratings, however, continue to 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 High gearing levels due to recently completely capital expenditure project.

Rating sensitivities

Positive:

- 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:

- Increase in working capital cycle beyond 90 days
- Increase in gearing above 3.5x

Detailed description of the key rating drivers:

Key Rating 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. Mrs. Mithlesh Sharma, aged 42 years, is another Promoter & Director of RML. She has done Bachelor of Arts from Kurukshetra University. She has planned and directed the strategies, development of advertising campaign, creative development for the company. 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, Delton Cables Limited, Svarn Infratel Pvt Ltd. RML has offered high quality services/ products which has led to repeat business from key customers.

The company's top 5 customers contributed ~60% of the total operating income in FY21 (refers to the period April 1 to March 31) and 76.20% as on March 20, 2022. This exposes RML's revenue growth and profitability to its customer's future growth plans.

Growing scale of operations albeit softened profitability margins in FY22

The operating performance of the company as exhibited by the total operating income has improved significantly from Rs. 631.74 crores in FY21 to Rs. 1029.49 cr mainly on account of stabilization of plant and high demand from the market along with increase in the prices of the copper(raw material)

The profitability margins of the company dependent on fluctuation of raw material prices coupled with sales made from various segment. Out of the total cost, 90% comprise of raw material (copper) where the prices are fluctuating frequently. The PBILDT margin and PAT margins remain moderate at 1.82% and 0.80% in FY21 and 1.87% and 0.97 in FY22 respectively.

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

Comfortable operating cycle
RML working capital cycle remain moderate as reflected by operating cycle of 18 days at the end of FY21 & 15 days in FY22 the improvement is mainly on account of improvement in collection period and decrease in inventory days. 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 higher credit period to its customers and is also holding inventory for period of around 15-20 days. Due to the moderate working capital cycle the working capital utilization also remain low at 59% during the last 12 months ended March 31, 2022. Also the company manages part of its liquidity position by discounting the receivable backed by LC. Almost 25% of the company sales are backed by LC and it discount the LC as and when required to manage the liquidity position.

Key Rating Weaknesses

Small track record of operations:
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.

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 total raw material cost consumed during past three years ended FY22, the scrap is purchased on the prevailing market rate depending on the quality of scrap. However, absence of any long-term contracts and lag effect in the order of raw material and delivery to the manufacturing facilities exposes the company to vagaries of 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 has been reflecting high volatility in the recent past.
However, to reduce the risk of raw material price fluctuations RML procure raw material based on orders it receive from the customers and sale price of the copper rods are based on the raw material price on the day of order received.

High competition and inherent cyclicality in the metal industry
The industry for metal products is highly fragmented with large number of local unorganized and organized players in the market. The metal industry is cyclical with prices driven by demand and supply conditions in the market coupled with strong linkage to the global market. The producers of metal construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the metal prices. LME copper prices touched nine years high in January 2021 to average $ 7,961 per tonne. Prices have touched highest level since 2012 due to supply crunch of copper concentrates caused by disruptions in mining operations due to Covid-19 challenges amidst rising demand.

High gearing levels due to recently completely capital expenditure project
The overall gearing ratio of RML improved by remained high at 1.62x as on March 31, 2022 (PY: 2.18x). In FY21 gearing was high mainly due to the stabilisation of capex done by the company and improvement in gearing in FY22 was mainly on account of increase in net worth of the company. Due to the increase in scale of operations interest coverage improved from 13.14x in FY21 to 4.86x in FY22. Similarly, the total debt to GCA has also improved to 4.3x in FY22 (PY: 6.35x), mainly on account of increase in cash accruals by RML.
In FY23 RML is also planning to launch a new project to enter into new vertical of manufacturing of copper wires which will be used in the electrical vehicles, fans, electrical equipment's, switch boards etc because of the better margins. RML has purchased a plot amounting Rs. 8 Crore to set up a new plant and expecting total project cost of Rs.35 crore (including land cost). As of now company has only purchased a plot. This project is not yet started. Further to fund the project RML will apply for bank loan of Rs. 25 crore and Rs.10 crore will be funded through equity.

Thin profitability margins
The PBILDT margin of the company continues to remain thin at 1.82% in FY21 and 1.87% in FY22. 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. Nevertheless, the PAT margin improved slightly from 0.80% in FY21 and 0.97% in FY22 on account of better sales realisation.
However, absolute PBILDT of the company is improving on account of increase in the scale of operations as in FY22 RML has achieved PBILDT of Rs.13503 per tonne as against Rs.9397 per tonne in FY21.

Liquidity: adequate
RML's liquidity remained adequate marked by moderate utilization of its fund based working capital limits at below 60% in the trailing 6 months ended March 2022 and comfortable current ratio of 1.29x as on March 31, 2022. Further the company has around 25% of its sales against LC, which are further discounted to manage the liquidity position. Further the company has low repayment of Rs.3.48 cr in FY23. With the increasing scale of operations and moderate GCA the liquidity appears moderate.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Rating Methodology – NON-FERROUS METALS]
[Rating Methodology-Manufacturing Companies]
[Liquidity Analysis of Non-Financial Sector Entities]

About the Company
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 (Rs. crore)	FY20(A)	FY21(A)	FY22 (A)
Total operating income	148.85	631.74	1029.49
PBILDT	4.39	11.51	19.26
PAT	1.16	5.07	10.02
Overall gearing (times)	2.76	2.18	1.62
Interest coverage (times)	1.79	3.14	4.86

A: Audited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Bank Overdraft		-	-	-	23.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT-Letter of credit		-	-	-	5.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	23.00	CARE BBB-; Stable / CARE A3				
2	Non-fund-based - LT-Letter of credit	LT	5.00	CARE BBB-; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Bank Overdraft	Simple
2	Non-fund-based - LT-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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