



**RATING RATIONALE**

**24 December 2020**

**K.L. Rathi Steels Ltd.**

**Brickwork Ratings upgrades the long term rating for the long term facilities of Rs. 39.53 Crores of K.L. Rathi Steels Ltd.**

**PARTICULARS**

Facility**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2019)	Present
Fund based	39.53	39.53	Long Term	BWR BB Stable (Assigned)	BWR BB + Stable (Upgrade)
<b>Total</b>	<b>39.53</b>	<b>39.53</b>	<b>INR Thirty Nine Crores and Fifty Three Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings. RNR on 14 Sept, 2020.

\*\*Complete details of Bank facilities is provided in Annexure-I & II

**RATINGS: Upgraded**

**RATING ACTION / OUTLOOK**

The Rating Outlook is Stable because BWR expects that ‘K.L. Rathi Steels Limited’ financial risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to ‘Positive’ in case the revenues and profit show sustained improvement. The rating outlook may be revised to ‘Negative’ if the revenues go down and profit margins show lower than expected figures.

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED- NA**

**KEY RATING DIVERS:**

BWR has primarily relied upon the audited financials up-to FY20 and projected financials up-to FY22, publicly available information and the information/clarifications provided by the management.

The revision of the rating has factored the stable and steady increase in the financial parameters of the company. The rating also factored the strength from the established presence of the company and extensive experience of the promoters, satisfactory gearing and net-worth, satisfactory debt protection metrics of the company and established relationship with customers and suppliers. However, the ratings are constrained by unstable revenues, moderate profitability, intense competition in the market and working capital intensive nature of operations.

## DESCRIPTION OF KEY RATING DRIVERS

### Credit Strengths:

- **Extensive experience of management:** The directors of the company are well qualified and hold more than seven decades of experience in the steel industry. Their knowledge and experience has helped them in maintaining long term relationships with their clients.
- **Satisfactory Gearing:** The Total Debt/TNW and TOL/TNW has decreased from 0.70x & 1.76x in FY19 to 0.35x & 1.30x in FY20. In FY21, TOL/TNW is projected to be 1.21x.
- **Satisfactory Networth-** The networth of the company is satisfactory at 48.10crs in FY19 and Rs. 49.62Crs in FY20 due to retention of profits. The funds appear to have been deployed in the business activities and not invested into any related party in form of long term and short term advances.
- **Improved Net profit margin-** The net profit margin of the company marginally increased to 0.17% in FY19 to 0.28% in FY20. However, it is projected to be 0.35% in FY21.
- **Satisfactory Debt Protection Metrics-** The Debt Protection Metrics of the company is satisfactory i.e. ISCR & DSCR stood at 1.66x & 2.25x in FY20 against 1.72x & 1.91x in FY19 showing the ability of the company to repay the interest and principle of loans.

### Risk Factors:

- **Revenue Instability-** The company has shown revenue of Rs. 543 Crs in FY20 as compared to Rs. 638 Cr in FY19 because of the decrease in revenue from its rolling mill unit due to overall economic slowdown in the market in FY 20. Therefore, Revenue and profitability are susceptible to economic downturns. Eight months' revenue in the current year (i.e. upto Nov'20) amounts to Rs. 171.44 cr (manufacturing- Rs. 166 Crs and trading- Rs. 5.44 Crs) which is far away from the projected numbers for the current financial year.
- **Low Operating profit margin-** The decreasing operating profit margin in FY20 to 0.77% from 0.91% in FY 19. However, the company has projected OPM of 0.85% in FY21.
- **Vulnerability to fluctuations in input prices-** The steel industry in India is characterised by intense competition and fragmentation, with the presence of large numbers of units because of low entry barriers. This restricts the ability of players to pass



on any increase in the raw material prices to customers. Therefore, any sharp increase in input prices (iron ore, dolomite, etc.) may have a significant impact on the profitability of the companies in the sector.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

## **RATING SENSITIVITIES**

Going forward, the ability of the company to further increase its scale of operations by improving its revenue, profitability margins, improvement in financial profile, as usual maintaining its debt obligations and efficiently managing its working capital will be the key rating sensitivities.

**Positive:** The ratings may be upgraded if revenue, profitability, liquidity, gearing and overall credit profile show substantial improvement.

**Negative:** The rating may be downgraded in case there is a significant deterioration in business and financial risk profile of the company from its current level.

## **LIQUIDITY POSITION: Comfortable**

The Company has Cash & Bank balance of INR 16.54 lacs in FY20. The long term borrowings of INR 2.04 crores in FY20 which represents secured loan against hypothecation of life insurance policy and vehicles. The debt protection metrics of the company is satisfactory in FY20 as ISCR & DSCR stood at 1.66x & 2.25x in FY 20 against 1.72x & 1.91x in FY19. The CC utilization of the last 6 months is around 20%. The Company has a current ratio of 1.59x in FY20 which is above industry average. The conversion cycle of the company is 35 days in FY20. Net cash accruals/ total debt is low at 0.15x in FY20. Also, the average utilization in the CC account has been consistently less than Rs. 30 Crs against a sanctioned limit of Rs. 39.53 Crs., indicating the availability of funds to meet any unforeseen short term requirement. Hence, the overall liquidity appears to be in a comfortable position.

## **COMPANY PROFILE**

K.L. RATHI STEELS LTD was incorporated in the year 1972, to take over the assets of erstwhile Rathi Steel Rolling Mills, a family enterprise established in 1942 at Shahdara, Delhi, for production of steel bars and rods. The company is headed by Mr. Deepak Rathi who has been managing the company since inception i.e. 45 years. The legacy is carried on and the family business has emerged as a trusted popular brand, “RATHI” registered in India. It was first in India to produce Cold Twisted Deformed Bars popularly known as “TOR STEEL” in 1967 under license from Tor Isteg Steel Corporation, Luxemburg, Europe, a premier organization for imparting technology for production of high strength steel bars.



The steel rolling mill unit continued its operation till 1996 in Delhi and thereafter under Hon'ble Supreme Court directions relocated at NOIDA EXTENSION, Uttar Pradesh, with the latest technology and modernised mill. The new unit is automatic and efficient to produce 1,00,000 tonnes p.a. of HSD Bars (TMT Bars) in sizes 8 mm to 32 mm. The unit has been licensed by Centre De Recherches Metallurgiques, Avenue Ariane, 5 in B-1200, Brussels, Belgium, to use **TEMPCORE technology** and is producing and marketing HSD Bars (TMT Bars) in India under the registered brand name "**THERMOQUENCH**". The steel rolling mill Unit at Greater Noida (West), Gautam Budh Nagar, U.P. was commissioned in May, 1999.

The company holds Quality Certification from **CENTRE DE RECHERCHES METALLURGIQUES, BELGIUM**, the patent holders of the "**TEMPCORE**" Technology. The said unit is registered with Bureau of Indian Standards, Ghaziabad as Group-I, re-rollers having licence No.CM/L/8331366/ BIS/GZB for ISI marking on the finished products and has also obtained **ISO 9001: 2000** Licence No. IN606-QC from TQCS International Pvt. Ltd., P.O. Box 483, Woodville SA 5011, Australia.

The company also has 4 units of windmills. The first unit was started in Kutch, Gujarat (M-39) in 2007. Two units are situated at Sangana, Jaisalmer (AK-406 and AK-407) and one in Akal, Jaisalmer (AK-419). The units of Jaisalmer were started in 2009-10.

#### **KEY FINANCIAL INDICATORS (in ₹ Cr)**

<b>Key Parameters</b>	<b>Units</b>	<b>2020</b>	<b>2019</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Revenue	In Crores	543.05	638.73
EBITDA	In Crores	4.19	5.79
PAT	In Crores	1.51	1.07
Tangible Net worth	In Crores	49.62	48.10
Total Debt/Tangible Net worth	In Times	0.35	0.70
Current Ratio	In Times	1.59	1.45

**NON-COOPERATION WITH PREVIOUS RATING, IF ANY-** IND BB (ISSUER NOT COOPERATING)/ IND A4+(ISSUER NOT COOPERATING) for Rs. 39.53 on 27 June, 2019.

**RATING HISTORY for last three years (including withdrawn/suspended ratings)**

Instrument /Facility	Current Rating			Rating History		
	Type	Amount (Rs. Cr)	Rating	11.09.2019	2018	2017
Fund Based	Long term	39.53	BWR BB+ Stable Upgrade	BWR BB Stable Assigned	---	---
<b>Total</b>		<b>39.53</b>	<b>INR Thirty Nine Crores and Fifty Three Lakhs Only</b>			

\*RNR on 14.09.2020.

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Approach to Financial Ratios**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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**K.L. Rathi Steels Ltd.**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term [Rs Cr]</b>	<b>Short Term [Rs Cr]</b>	<b>Total [Rs Cr]</b>
<b>Punjab National Bank New Delhi</b>	<b>Fund Based Cash Credit</b>	<b>39.53</b>	<b>--</b>	<b>39.53</b>
<b>TOTAL</b>				<b>39.53</b>

**Total Rupees Thirty Nine Crores and Fifty Three Lakhs Only**

**ANNEXURE II**

**Details of instruments (NCD/Bonds/CP)**

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount in Crs.</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
NA	NA	NA	NA	NA	NA

**ANNEXURE III**

**List of entities consolidated**

<b>Name of Entity</b>	<b>% ownership</b>	<b>Extent of consolidation</b>	<b>Rationale for consolidation</b>
NA	NA	NA	NA



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