



Rating Rationale

R R Industrial Corporation (I) Ltd

15 Jun 2018

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹ 8.50 Crores of R R Industrial Corporation (I) Ltd. (hereafter “the Company” or “RRICIL”)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (April, 2017)	Present
Fund Based Cash Credit	4.00	6.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook: Stable	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable Upgraded
Non-fund Based Letter of Credit	2.50	2.50	Short Term	BWR A4+ (Pronounced as BWR A Four Plus)	BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed
Non-fund Based Bank Guarantee**	N.A.	(1.25)		N.A.	
Total	6.50	8.50	INR Eight Crores and Fifty Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

**Sub-limit of Letter of Credit

Ratings: Long Term Rating Upgraded. Short Term Rating Reaffirmed.

Rationale/Description of Key Rating Drivers/Rating Sensitivities:

BWR has principally relied upon audited financials of the firm upto FY17, provisional financials of FY18, projected financials upto FY20, publicly available information, and information/clarification provided by the management.

The rating, inter alia, reflects experience of the promoters in same line of business, business diversification through venturing into food grain and carbon coal trading, geographical presence in 10



states, long term relationship with suppliers and buyers, sustained growth in revenue in past 3 years backed by order book position, low gearing level, comfortable liquidity position, and funding support by promoters.

However, the rating is constrained by low profitability margin inherent in trading nature of business, cyclicity of the business operations, intense price-based competition in market putting premium on volume and synergies of operations, supplier and buyer concentration risk, geographical concentration of operations in Chhattisgarh, lack of long term contract with buyers, foreign exchange risk with regard to trading of carbon coal, dependence on third party transportation providers, and lack of operational history in food grains and carbon coal trading by the Company.

Going forward, the ability of the Company to sustainably improve revenue and profit margins, maintain low dependence on borrowings, prudently manage working capital needs, expand and diversify the business operations, and maintain cash conversion cycle at current levels would be the key rating sensitivities.

Description of Key Rating Drivers

- **Credit Strengths:**

- **Experience of Promoters:** The promoters are in this business since 1986, when Mr. Kanhaiya Lal Gangwal established R R Industrial Corporation as a proprietorship firm for trading in iron & steel products. Mr. Sanjay Kumar Jain provided leadership to the business after incorporation of the Company in 2009. R R Iron & Steel Pvt. Ltd., Company's corporate promoter, is also involved in same line of business. The associate firms of the Company, promoted by the main promoter's family members, are involved in the similar line of business.
- **Sustained Growth in Revenue:** The Company's revenue grew at around 25% CAGR over the period FY14-17. During this period, net sales increased from Rs. 129.11 Crs. to Rs. 251.35 Crs. The growth in net sales was almost 47% in FY17 over FY16. EBITDA grew at over 67% CAGR during FY15-17 and by over 30% in FY17 over FY16. PAT grew at over 44% CAGR during FY15-17 and by over 52% in FY17 over FY16.
- **Low Gearing Level:** Compared to the Company's net sales of Rs. 251.35 Crs. in FY17 and Tangible Net Worth of Rs. 22.58 Crs. as on 31.03.2017, its total borrowings were only Rs. 2.60 Crs. This translates into the gearing ratio of 0.12x as on 31.03.2017. The gearing ratio has remained stable in last 3 years despite the growth in Company revenue from Rs. 143.53 Crs. to Rs. 251.35 Crs. over the period. Also, the business diversified into trading of food grains and carbon coal during this period. This indicates the debt-neutral growth for the Company.
- **Long Term Relationship with Suppliers & Buyers:** The Company has managed to maintain long term relationship with its suppliers and buyers. Its business model is based on identifying reliable and efficient suppliers which can deliver large size orders in time, which helps it to elicit customer satisfaction and repeat orders. Even as it has no long



term contract with the buyers, it has managed in maintaining stable and mutually beneficial relationships with them.

- **Comfortable Liquidity Position:** The Company's net cash accruals increased from Rs. 0.65 Cr. in FY16 to Rs. 1.02 Crs. in FY17. Cash & Cash Equivalents increased substantially from Rs. 1.59 Crs. to Rs. 6.52 Crs. over same period. The cash conversion cycle contracted from 35 days to 27 days. Although the Current Ratio declined from 2.10x to 1.62x, it is still at moderate level. These statistics coupled with the Company's low utilization of Cash Credit facility with its bank indicate comfortable liquidity position.
- **Funding Support by Promoters:** The Company received term loan of Rs. 0.25 Cr. from its promoters/directors in FY17. Besides that, the Company has Rs. 12.04 Crs. of interest bearing and payable on demand inter-corporate deposits termed as Other Long Term Payables in its Balance Sheet as on 31.03.2017.
- **Credit Risks:**
 - **Low Profitability:** The Company is primarily involved in trading of structured iron & steel products, food grains, and carbon coal. As there is virtually no value addition in the process, the pricing ability gets constrained. Also, competitors may offer similar products to potential customers at competitive prices. All these lead to low margin in trading business, and the viability depends mostly on volume growth.
 - **Cyclicity of Business Operations:** The demand for Company's products comes mainly from real estate and infrastructure sectors. June to September period in India has Monsoon rainfall in most parts of the country due to which construction activities decline. Also, due to sowing and harvest seasons in May-July and October-November respectively of Kharif crops and October-November and April-May respectively of Rabi crops, there is a shortage of construction workers as they get employed as agricultural labourers at competitive wages. This also leads to seasonal variation in demand for products offered by the Company.
 - **Supplier and Buyer Concentration Risk:** Top 2 suppliers of the Company accounted for over 65% of the purchases by the Company in as on 30.09.2017 in FY18. Similarly, top 5 buyers accounted for over 40% of the total sale of the Company as on 30.09.2017 in FY18. Loss of any of these suppliers or buyers could have negative effect on Company revenue.
 - **Dependence On Third Party Transportation Providers:** The Company's operations depend upon timely pick up and delivery of goods by the transport services providers. Disruption in their services due to strike, sabotage, natural causes, dispute over contracts, lack of road infrastructure, regulatory and/or judicial interventions, etc. may potentially affect business operations of the Company.



Analytical Approach

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 Outlook: Stable

BWR believes the **R R Industrial Corporation (I) Ltd** business 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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down, profit margins show lower than expected figures, TOL/TNW worsens, and liquidity position shows sign of reversion.

About the Company

RRICIL was incorporated as a Private Limited Company in May, 2009. It was reconstituted into a Public Limited Company in March 2017, and consequently, its name was changed from RR Industrial Corporation (India) Pvt. Ltd. to RR Industrial Corporation (India) Ltd. Its registered office is in Raipur, Chhattisgarh. The Company trades in structural steel products like TMT Bars, Beam, Channel, Angel, Poles, Flat, Wire Rod, Binding Wire, MS Plates, Boiler Plates, Hot Rolled Sheets, Cold Rolled Sheets, etc. In FY17 and FY18 respectively, it forayed into trading of food grains and carbon coal. It has got ISO 9001:2008 certification in Quality Management System, valid till 15.09.2018. It has branches across various states: Indore (M.P.), Nagpur (Maharashtra), Lucknow (Uttar Pradesh), Ahmedabad (Gujarat), Sikar (Rajasthan), Ranchi (Jharkhand), Hyderabad (Telangana) Bengaluru (Karnataka), Goa, and Orissa.

Mr. Sanjay Kumar Jain, Mr. Kanhaiya Lal Gangwal, and RR Iron & Steel Pvt. Ltd. are the promoters of the Company. Mr. Sanjay Kumar Jain is currently the Managing Director of the Company. He holds over 25 years of business experience in manufacturing and trading of iron & steel. He is currently the President of Raipur Iron & Steel Trade Association. He has served as a member of Steel Consumers Council, Ministry of Iron & Steel, GoI.

The associate and group companies are: Shree Shyam Rolling Mill, Aarti R R Infra Project Pvt. Ltd., RR Iron & Steel Pvt. Ltd., and Kush Trading & Commerce Pvt. Ltd.

The Company has filed Draft Prospectus for IPO with NSE SME Exchange on 27.03.2018.

Company Financial Performance

Company's net sales increased from Rs. 171.19 Crs. in FY16 to Rs. 251.35 Crs. in FY17. PAT was at Rs. 0.96 Cr. in FY17 compared to Rs. 0.63 Cr. in FY16. Debt protection metrics remained weak to moderate despite low level of debt. As on 31st March 2017, Tangible Net Worth of the Company stood at Rs. 22.58 Crs. against total debt of Rs. 2.60 Crs., resulting in gearing multiple of 0.12x.

Key Financial Indicators

Key Parameters	Units	2018	2017	2016
Result Type		Provisional	Audited	Audited
Operating Revenue	In ₹ Crs	264.86	251.35	171.19
EBITDA	In ₹ Crs	4.30	3.78	2.90
PAT	In ₹ Crs	1.58	0.96	0.63
Tangible Net worth	In ₹ Crs	24.16	22.58	21.62
Total Debt/Tangible Net worth	Times	0.13	0.12	0.11
Current Ratio	Times	2.14	1.62	2.10

Rating History

S.No	Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Present Rating	4.4., 2017	16.9. 2015	14.5.2014
1	Fund Based Cash Credit	Long Term	6.00	BWR BB+ (Outlook: Stable) (Upgraded)	BWR BB (Outlook: Stable) (Upgraded)	BWR BB- (Outlook: Stable) (Reaffirmed)	BWR BB- (Outlook: Stable)
2	Non-fund Based Letter of Credit	Short Term	2.50	BWR A4+ (Reaffirmed)	BWR A4+ (Upgraded)	BWR A4 (Reaffirmed)	BWR A4
3	Non-fund Based Bank Guarantee*		(1.25)		N.A.	N.A.	N.A.
	Total		8.50	₹ Eight Crores and Fifty Lakhs Only			

*Sub-limit of Letter of Credit

Status of non-cooperation with previous CRA - Not applicable

Any other information - None

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)



- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

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