CareEdge RATINGS

Rajnandini Metal Limited

June 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	14.00 (Enhanced from 5.00)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Long Term Bank Facilities	86.00 (Enhanced from 23.00)	CARE BBB-; Negative	Revised from CARE BBB-; Stable / CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and 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, and comfortable operating cycle. The ratings, however, continue to remain constrained due to upcoming project risk leading to increasing debt level, 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 upcoming project.

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 major cost overrun in the new project funded through debt

Analytical approach: Standalone

Outlook: Negative, CARE has revised its outlook on the long-term bank facilities of Rajnandini Metals Limited (RML) to 'Negative' from 'Stable' while reaffirming the rating at CARE BBB-. The revision in outlook is on account of risk associated with the launch of new project to enter into new vertical of home appliances leading to increased debt level. CARE also notes the increasing working capital borrowing in the existing operations, leading to high overall gearing at 1.74 as on March 31, 2023. Further with the new project and the incremental debt coming in, the gearing is further expected to deteriorate. The ratings may be revised downwards if there is any major cost overrun or deterioration in the envisaged leverage from the expected levels. The outlook may be revised to 'Stable' if the company is able to complete the project with estimated project cost and timelines with growing scale of operations while maintaining its capital structure and profitability margins.

Detailed description of the key rating drivers:

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:

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

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 softened profitability margins:
The operating performance of the company as exhibited by the total operating income has improved marginally from Rs. 1028.25 crores in FY22 to Rs. 1039.02 cr. Gross cash accruals of the company also improved in FY23 from Rs.11.63 crore to Rs.15.19 crore mainly on account of improved margins generated by the company. 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 of the company improved at 2.84% and 1.31% in FY23 in FY23 and 1.87% and 0.98 in FY22 respectively.

Comfortable operating cycle:
RML working capital cycle remain moderate as reflected by operating cycle of 21 days at the end of FY23 & 15 days in FY22. 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. Due to the moderate working capital cycle the working capital utilization also remain low at 60% during the last 12 months ended March 31, 2023. However, with the growing scale of operations, there is increase in company working capital requirement, leading to deterioration in the overall gearing as on March 31, 2023.

Key weaknesses

Project Risk leading to off-take risk along with deterioration in overall gearing
RML is planning to launch a new project to enter into new vertical of home appliances including electrical wire and switches. RML has already purchased a plot amounting Rs. 10.70 Crore and Rs. 0.30 crore of plant and machinery in FY23. Company is projecting total cost of capex ~Rs.70 crore and Working capital of Rs.30 crore. Total cost incurred on the project till March, 2023, is ~11.00 crore. To fund the cost of project RML has proposed to take term loan of Rs.50cr and further working capital financing of Rs.30cr (financial closure yet to be achieved for both) .. Company is projecting to complete the project by end of FY24. With the increasing working capital requirement on the existing operations along with the debt coming for the new capex, the total debt level of the company has increased considerably leading to material deterioration in the overall gearing as on March 31, 2023 and further expected to deteriorate at the end of FY24. Therefore going forward, the ability of the company to complete the project within the estimated timeline and cost and derive the expected benefits would be key rating sensitivity.

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 the total raw material cost consumed during the past three years ended FY23, 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.
On account of the same PBILDT margin of the company improved at 2.84% in FY23 from 1.87% in FY22 on account of better realisations. The PAT margin of the company also improved at 1.31% in FY23 as against 0.98% 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 volatilty in metal prices. Hence, the margins continue to remain under pressure due to fragmentation and low bargaining power across the industry.

Liquidity analysis: Adequate

RML's liquidity remained adequate marked by moderate utilization of its fund based working capital limits at around ~43% in the trailing 12 months ended March 2023 and comfortable current ratio of 1.20x as on March 31, 2023. Further the company has low repayment of Rs.2.37 cr in FY24 as against GCA of Rs.15.19 crore in FY23 which expected to improve 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
Non Ferrous Metal
Policy on Withdrawal of Ratings
Manufacturing Companies

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)
Total operating income	1,028.25	1,036.03
PBILDT	19.19	26.56
PAT	10.03	13.66
Overall gearing (times)	1.74	1.74
Interest coverage (times)	4.83	3.65

A: Audited UA: Unaudited;

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		-	-	-	86.00	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	January 2028	14.00	CARE BBB-; Negative

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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	86.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable / CARE A3 (30-May-22)	-	-
2	Fund-based - LT-Term Loan	LT	14.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (30-May-22)	-	-

*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	Fund-based - LT-Term Loan	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.

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About us:
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