

Press Release

RSA Turbotech Private Limited

February 22, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to 'ACUITE B+' (read as ACUITE triple B Plus) from 'ACUITE D' (read as ACUITE D) to the Rs.14.00 crore bank facilities of RSA Turbotech Private Limited. The outlook is 'Stable'.

The rating upgrade factors in timely servicing of its debt obligations; stabilization of its operations post commencement at its new factory; it started commercial operations during November 2016 and FY2018 was the first full year of operations; it has reported revenues of about Rs.11 crores, though modest. However, operating margins are strong at about 57 per cent, owing to job work related revenues. The rating also factors in the synergies it gets from its group entity 'RS Associates' in terms of regular orders besides external works. However, the ratings are constrained by working capital intensive operations, high repayment obligations and limited track record of operations.

R.S.A. Turbotech Pvt Ltd (RSA) incorporated in November, 2014, has commenced its operations from November 2016. Company is into designing, engineering, procurement, fabrication, testing and supply of dry-gas seal skids, lube oil skids, and pre-fab piping spools. RSA operates from its plant at Hoskote, Bangalore.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of RSA Turbotech Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

• Extensive experience of the promoters:

The company, part of RS Group was incorporated in November, 2014 with the Manufacturing of custom engineered machinery skids and process skids to the Oil & Gas industry. The directors are Mr. Prasad Shetty and Mr. Prakash Shetty who possess experience of over 30 years in the oil and gas, telecom and power sectors.

• Comfortable financial risk profile:

The company has a moderate financial risk profile which is marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protections metrics. Gearing and TOL/TNW are moderate at 1.04 and 1.13 times as on 31 March, 2018 as against 1.41 and 1.49 times as on 31 March, 2017. Net worth is modest at Rs.11.53 crore as on 31 March, 2018 as against Rs.9.32 crore as on 31 March, 2017. The total debt constitutes of long term debt of Rs. 11.99 crore as on 31 March, 2018. Debt protection metrics of interest coverage ratio and debt service coverage ratio are healthy at 4.13 times and 0.42 times respectively in FY2018. RSA reported cash accruals of Rs.4.98 crores in FY2018. Acuite believes that, with moderate accruals vis-à-vis its repayment obligations and absence of significant debt-funded capex plans, financial risk profile is expected to improve marginally over the medium term.

Weaknesses

- **Limited track record of operations and modest scale of revenues:**

The company's revenues are modest, being job work related. The company has commenced its operation from November 2016 and has registered revenue of Rs. 0.06 crore in FY2017 and revenue of Rs.11.11 crore for the FY2018. The company has registered revenues of Rs.10.00 crore for April to Jan '19; it has an outstanding order book of Rs.10.35 crores as of January 31, 2019 for deliverables over 6-12 months. Acuite believes that the revenues are expected to be in the range of Rs.12-18 crores over the medium term, being long operating cycle and job work nature of revenues majorly.

- **Intense competition in the industry:**

RSA operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the unorganized sector limits its bargaining power with customers.

- **Working capital intensive operations**

Operations of the company are moderately working capital intensive marked by high gross current assets (GCA) of 173 days in FY2018 on account of stretch in debtors of about 100 days, and moderate Inventories cycle at 26 days in FY2018. Acuite believes that, operations continues to be at similar levels over the medium term

Liquidity

Liquidity of RSA is moderate marked by moderate cash accruals against repayment obligations and working capital intensive operations due to stretch in debtors. It has reported cash accruals of Rs.4.98 crore in FY2018. Its expected cash accruals are in the range of Rs.4-5.5 crore over the medium term against which its repayment obligations are about Rs.2.33 crore. Operations are working capital intensive due to stretch in debtors to about three months and it is not enjoying any working capital limits. Acuite believes that, liquidity of the company is expected to be moderate over the medium term in the absence of significant capex plans.

Outlook: Stable

Acuite believes that RSA Turbotech Pvt Ltd will maintain 'Stable' outlook in the medium term on account experienced management in the industry. The outlook may be revised to 'positive' if RSA registers higher than expected growth in its revenues while maintaining stable profitability. Conversely, the outlook may be revised to 'Negative' in case of further stretch in its working capital management and any significant capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.11	0.06	-
EBITDA	Rs. Cr.	6.32	(2.12)	(0.07)
PAT	Rs. Cr.	2.21	(3.68)	(0.04)
EBITDA Margin	(%)	56.90	(3449.18)	-
PAT Margin	(%)	19.92	(5992.33)	-
ROCE	(%)	15.49	(17.34)	(0.75)
Total Debt/Tangible Net Worth	Times	1.04	1.41	0.27
PBDIT/Interest	Times	4.13	(3.72)	-
Total Debt/PBDIT	Times	1.90	(6.20)	(38.30)
Gross Current Assets (Days)	Days	132	4589	-

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Oct-16	Term Loan	Long Term	INR 14.00	ACUITE B/Stable (Assigned)
18-Dec-17	Term Loan	Long Term	INR 14.00	ACUITE D (Downgraded)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE B+ / Stable (Upgraded)

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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