

Press Release

RSA Turbotech Private Limited

July 02, 2021



Rating Downgraded; Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE BB-**' (**read as ACUITE double B Minus**) on the Rs.14.00 Cr bank facilities of RSA Turbotech Private Limited (RSA). The outlook is '**Stable**'.

The rating downgrade reflects weakening of the company's business and financial risk profile owing to weaker-than-expected operating performance in fiscal 2021. The Operating income is expected to decline by ~90 percent to Rs.1.65 Cr in FY2021 as against Rs.16.83 Cr in FY2020. Performance was severely impacted by the muted order inflow and slower execution during the year owing to the pandemic.

RSA Turbotech Private Limited (RSA), incorporated in November, 2014, is promoted by Mr. Prasad Shetty Mahabal and Mr. Prakash Shetty. RSA is engaged in designing, engineering, procurement, fabrication, testing and supply of dry-gas seal skids, lube oil skids, pre-fab piping spools among others. RSA operates from its plant at Hoskote, Bangalore.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RSA to arrive at this rating.

Key Rating Drivers

Strengths

- **Extensive experience of the promoters**

The company incorporated in 2014 is engaged in manufacturing of custom engineered machinery skids and process skids to the Oil & Gas industry. The directors - Mr. Prasad Shetty and Mr. Prakash Shetty possess experience of over 30 years in the oil and gas, telecom and power sectors. The extensive experience of the promoters has helped the company to generate healthy relations with various customers and suppliers in both domestic as well as global market. The company has reported operating income of Rs.16.87 Cr in FY2020 as against Rs.11.34 Cr in FY2019. In fiscal 2021 (Provisional), revenue is expected to decline by 90 percent due to slow order inflow and its execution owing to disruptions caused by the Covid-19 pandemic. Acuité believes improvement in scale of operations would be a key rating sensitivity, going forward.

Weaknesses

- **Above-average financial risk profile**

RSA has above-average financial risk profile marked by a moderate capital structure and moderate debt protection metrics. The net worth of the company improved to Rs.7.61 Cr as on 31 March 2020 as against Rs.6.45 Cr as on 31 March 2019. RSA maintained unsecured loans to the tune of Rs.5.99 Cr over the past 3 years ended with 31 March 2020. The company has capital structure marked by healthy gearing (debt-Equity) and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.79 times and 1.97 times respectively as on 31 March 2020 vis-à-vis 2.41 times and 2.70 times respectively as on 31 March 2019. RSA's debt protection metrics are healthy marked by interest coverage ratio at 4.84 times and NCA/TD of 0.22 times for FY 2020 as vis-à-vis 3.65 times and 0.20 times for FY2019 while the Debt Service Coverage Ratio (DSCR) stood around 1.36 times in FY2020 and 1.22 times for FY2019. Acuité believes the financial risk profile to improve over the medium term in absence of any debt funded capex plan and expected improvement in debt coverage indicators with decline in the term loan repayment obligations from FY2022 onwards.

• **Working capital-intensive operations**

RSA's operations are working-capital-intensive marked by its gross current assets (GCA) of 132-196 days during FY2018-FY2020. The debtor realisation days and inventory days were in the range of 11-96 days and 0-162 days, respectively, during the last 3 years ended with FY2020. The company is receiving high credit of 42-221 days from suppliers. RSA doesn't have any working capital limits but regular collections and advances from customers supports the liquidity of the company.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins
- Any large debt-funded capital expenditure, resulting in weakening of financial risk profile.

Liquidity position: Stretched

The company has stretched liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.3-5 Cr for last three years ending through FY2020 while its maturing debt obligation stood in the range of Rs.1.00-2.90 Cr for the same period. Going forward, the cash accruals are expected to be in the range of Rs.2.50-3.50 Cr against the debt obligation of around Rs.2.00-2.50 Cr for the period of FY2021-23. RSA doesn't have any working capital limits but regular collections and advances from customer supports the liquidity of the company. In FY2021, the estimated shortfall is expected to be met through availing Guaranteed Emergency Credit Line (GECL) of Rs.1.50 Cr and promoters' unsecured loans of Rs.6.00 Cr. The Company has maintained low unencumbered cash and bank balances Rs.0.48 Cr and the current ratio stood at 1.50 times as on March 31, 2020. Acuité believes that the liquidity of company is likely to remain adequate over the medium term on account of adequate cash accruals against the repayment obligations over the medium term.

Outlook: Stable

Acuité believes RSA will maintain a 'Stable' business risk profile over the medium term benefiting from its experienced management and moderate operating margins. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or in case of deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	16.83	11.34
PAT	Rs. Cr.	1.15	0.91
PAT Margin	(%)	6.86	8.03
Total Debt/Tangible Net Worth	Times	1.79	2.41
PBDIT/Interest	Times	4.84	3.65

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Sector Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Service Sector Entities - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-May-20	Term Loan	Long Term	11.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
	Term Loan	Long Term	3.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
22-Feb-19	Term Loan	Long Term	14.00	ACUITE B+ / Stable (Upgraded from ACUITE D)
18-Dec-17	Term Loan	Long Term	14.00	ACUITE D (Downgraded from ACUITE B)

***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	29-02-2016	Not Applicable	31-03-2022	4.56	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Term Loan	29-02-2016	Not Applicable	31-01-2022	3.00	ACUITE B+ / Stable (Downgraded and Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.44	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)

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About Acuité Ratings & Research:

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