Press Release

Renuka Equipments Private Limited

December 23, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and upgraded the short term rating to **'ACUITE A4+' (read as ACUITE A four plus)** from **'ACUITE A4' (read as ACUITE A four)** to the above mentioned bank facilities of Rs.12.50 crore for Renuka Equipments Private Limited (REPL). The outlook is **'Stable'**.

The upgrade in short term ratings is on account of improving scale of operations and liquidity profile of the company. The improvement in liquidity is marked by improvement in operating and net profitability margins resulting in improvement in net cash accruals.

REPL, based of Nagpur was incorporated in 1997 by Mr. Soumitra Kothari and Mrs. Rasika Kothari. The company is engaged in designing and manufacturer of plant, machinery and structures used in iron and steel, metallurgical and engineering plants such as HM Handles, Bail Arm Lifting hooks, Marshalling Winches, Scrap charging buckets and heat treatment buckets. REPL also undertakes turnkey and semi-turnkey contracts in the metallurgical, mineral processing and engineering.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record and experienced management**

  REPL was established as a proprietorship firm in 1997 and converted to a private limited company in 2003 by Mr. Soumitra Kothari and Mrs. Rasika Soumitra Kothari. The promoters have more than two decades of experience in the engineering equipments industry. The long track record of the management has helped the company develop healthy relations with suppliers and reputed customers such as TATA Steel, JSW Steel, and SAIL Steel Plant among others. Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

- **Improving revenues and Margins**

  The operating income of the company is growing YoY, which stood at Rs.13.19 crores in FY2019 as against Rs. 8.94 crores in FY2018. The company has booked revenue of Rs. 15.36 crores till November 2019. The operating margins and net profit margins stood improved at 21.81 percent and 1.10 percent in FY2019 as against 18.98 percent and 1.02 percent in FY2018. Further, the company has an unexecuted order book position of Rs.23.00 crore as on November 2019 from the above mentioned companies which provides revenue visibility in the medium term.

- **Moderate financial risk profile**

  The financial risk profile of REPL is moderate marked by tangible net worth of Rs.7.72 crore which includes Rs.3.18 crore considered as quasi equity as on 31 March 2019 as against Rs.7.42 crore including . The net worth has seen improvement due to ploughing back of profits in the business. The total debt of Rs.9.17 crore outstanding as on 31 March 2019 comprises Rs.1.96 crore as term loans and Rs.7.21 crore as working capital borrowing from the bank. The gearing ratio stood at 1.19 times as on 31 March 2019 as against 1.14 times as on 31 March 2018. The Interest Coverage Ratio stood at 1.76 times in FY2019 as against 1.31 times in FY2018. The DSCR stood at 1.48 times in FY2019 as against 1.25 times in FY2018. The Net Cash Accruals stood at Rs.0.90 crore in FY2019 as against Rs.0.34 crore in FY2018. The NCA/TD ratio stood at 0.10 times in FY2019 as against 0.04 times in FY2018. Acuité believes that REPL will sustain its financial risk profile backed by healthy accruals over the near to medium term.

Weaknesses

- **Working capital intensive operations**

  The operations of REPL have remained working capital intensive marked by GCA days of 384 in FY2019 as against 444 days in FY2018. This is on account of high inventory holding period inherent in the capital goods industry. The debtor days stood at 161 for FY2019 as against 87 days for FY2018. The inventory holding days stood high at 260 days in FY2019 and 395 days in FY2018. Acuité believes that the operations of REPL will remain working capital intensive since it caters to the capital goods industry. Further, the average cash credit limit utilisation stood at ~65.00 percent for the last six months ended November, 2019.

- **Cyclicality in capital goods sector and susceptibility to fluctuations in raw material prices**

  The engineering and capital goods industry is highly vulnerable to economic cycles. Further, REPL uses steel as major raw material. Any adverse effect in fluctuation of steel prices will in turn impact the operating and profitability margins.

Liquidity Position: Adequate

REPL liquidity stood adequate marked by sufficient net cash accruals against its maturing obligations. The company reported cash accruals of Rs. 0.90 crore for FY2019 against repayment obligations of Rs.0.05 to 0.40 crores. Further, the repayment obligations are expected to be in range of Rs.0.15 to 0.40 crores against annual cash accruals of about Rs.1.00 to 1.50 crore for FY2020-22. Its operations are working capital intensive marked by GCA days of 384 in FY2019 as against 444 days in FY2018. However due to higher inventory and inherent nature of capital goods industry its bank limits are moderately utilised at about 65.00 percent through November, 2019. Its current ratio is moderate at 1.14 times as on March 31, 2019.

Rating Sensitivities

- Improving revenue and Margins
- Working capital intensive nature of operations
- Significant debt funded capex beyond expected level leading to deterioration in capital structure.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the group registers higher- than expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in financial risk profile or liquidity arising from elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	13.19	8.94
PAT	Rs. Cr.	0.14	0.09
PAT Margin	(%)	1.10	1.02
Total Debt/Tangible Net Worth	Times	1.19	1.14
PBDIT/Interest	Times	1.76	1.31

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

Not Applicable

Any other information
None

Any Material Covenants
None

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-17.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-Jul-2019	Cash Credit	Long Term	6.50	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	6.00	ACUITE A4 (Indicative)
18-Apr-2018	Cash Credit	Long Term	6.50	ACUITE BB- (Upgraded)
	Bank Guarantee	Short Term	6.00	ACUITE A4 (Reaffirmed)
29-Mar-2018	Cash Credit	Long Term	6.50	ACUITE B+ (Indicative)
	Bank Guarantee	Short Term	6.00	ACUITE A4 (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Upgraded)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.