

## Press Release

**Renuka Equipments Private Limited**

February 22, 2021

**Rating Upgraded and Reaffirmed**



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

\* Refer Annexure for details

### Rating Rationale

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

### Reason for revision in rating

The rating upgrade is driven by improvement in scale of operations, liquidity profile backed by improving net profitability margins. The rating upgradation also factors in diversified revenue stream and moderate order book of Rs.17.00 crore providing revenue visibility over near to medium term. However, rating is constrained by moderate financial risk profile, working capital intensive nature of business and modest coverage indicators which is expected to improve over medium term.

The operating income of the company has improved to Rs. 20.74 crores in FY2020 as against Rs. 13.19 crores in FY2019. The company has booked revenue of Rs. 16.74 crores till January 2021. The net profit also stood improved at Rs.0.28 crore in FY2020 as against Rs.0.14 crore in FY2019, resulting in higher net cash accruals. Further, moderation in working capital cycle which is marked by improvement in receivable days to 80 days for FY2020 as against 161 days for FY2019 due to diversification in line of activities, has resulted in lower reliance on bank lines.

### About Company

Renuka Equipments Private Limited (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. The manufacturing facility is located at Hingna Industrial Area in Nagpur.

REPL also undertakes turnkey and semi turnkey contracts in the metallurgical, mineral processing and engineering. The company has ventured in civil construction and pre engineering structural contracts for Maharashtra Metro Rail Corporation Limited (MMRCL).

### Analytical Approach

Acuite has taken a standalone view of the business and financial risk profiles of REPL for arriving at the rating.

### Key Rating Drivers

#### Strengths

- Established track record of operations 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 Maharashtra Metro Rail Corp. Ltd. among others. The extensive experience and longstanding relationship has helped company to grow over the years on back of regular flow of orders. The company has outstanding orders of Rs.17.00 crores to be executed within three to four months.

Further, promoter's extensive industry experience has resulted in improvement in operating income of the company, which stood at Rs. 20.74 crores in FY2020 as against Rs. 13.19 crores in FY2019. The company has booked revenue of Rs. 16.74 crores till January 2021. However, operating margins stood declined at 11.72 percent in FY2020 as against 21.81 percent in FY2019, due to diversification in civil construction and pre engineering structural works of MMRCL. However, it has resulted in improvement in net profit margins stood at 1.37 percent in FY2020 as against 1.10 percent in FY2019. The profitability has also improved due to lower interest outgo of Rs. 1.40 crores in FY2020 as compared to Rs. 1.74 crores in previous year. Acuite believes that the company will continue to benefit from its experienced management and established relationships with customers.

- **Moderate financial risk profile**

The financial risk profile of REPL is moderate marked by tangible net worth of Rs. 7.40 crore as on 31 March 2020 as against Rs.7.11 crore. The net worth includes Rs.2.58 crore of unsecured loans considered as quasi equity subordinated with bank facility. The net worth has seen improvement due to ploughing back of profits in the business and improvement in net profitability margins. The total debt of Rs. 7.67 crore outstanding as on 31 March 2020 comprises Rs.1.15 crore as term loans and Rs.6.52 crore as working capital borrowing from the bank. The gearing ratio stood improved at 1.04 times as on 31 March 2020 as against 1.38 times as on 31 March 2019, on back of lower working capital limit utilisation. The Interest Coverage Ratio stood improved at 1.84 times in FY2020 as against 1.76 times in FY2019. The improvement in coverage ratio is on account of lower interest outgo in current year. The DSCR stood at 1.33 times in FY2020 as against 1.48 times in FY2019. The Net Cash Accruals stood at Rs.0.93 crore in FY2020 as against Rs.0.90 crore in FY2019. The NCA/TD ratio stood at 0.13 times in FY2020 as against 0.09 times in FY2019. Acuite 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 193 in FY2020 as against 384 days in FY2019. This is on account of high inventory holding period inherent in the capital goods industry. The debtor days stood improved at 80 days for FY2020 as against 161 days for FY2019 due to change in line of activities. The inventory holding days stood high but improved at 100 days in FY2020 and 260 days in FY2019. Also, company has diversified in civil construction and engineering works which is tender based in nature. Acuite believes that the operations of REPL will remain working capital intensive and scale of operations to remain moderate backed by healthy order book position.

- **Cyclicality in capital goods sector, susceptibility to fluctuations in raw material prices and economic slowdown due to pandemic**

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. Also, industry is marked by large number of organized and unorganised players. Thus, resulting in intense competition and restricts bargaining power with customers. The industry is intensely competitive and fragmented industry because of low entry barriers and moderate capital requirements. The high competitive intensity limits the pricing flexibility and exerts pressures on the margins of all participants. Further, the end user of the products are cyclical industries having impact on scale of operations.

### Rating Sensitivities

- Elongation in working capital cycle
- Susceptibility to timely execution of the projects
- Sustaining existing business and financial risk profile remains key monitorable

### Material Covenants

Not Any

### Liquidity Position: Adequate

REPL liquidity stood adequate marked by sufficient net cash accruals against its maturing obligations. The company reported cash accruals of Rs. 0.93 crore for FY2019 against repayment obligations of Rs. 0.40 crores. However due to higher inventory and inherent nature of capital goods industry its bank limits are moderately utilised at about 66.00 percent through last six months ending January 2021. Its current ratio stood low at 1.01 times as on March 31, 2020. The operations of REPL have remained working capital intensive marked by GCA days of 193 in FY2020 as against 384 days in FY2019.

### Outlook: Stable

Acuite 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 the working capital cycle.

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	20.74	13.19
PAT	Rs. Cr.	0.28	0.14
PAT Margin	(%)	1.37	1.10
Total Debt/Tangible Net Worth	Times	1.04	1.38
PBDIT/Interest	Times	1.84	1.76

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

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
23-Dec-2019	Cash Credit	Long Term	6.50	ACUITE BB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Upgraded)
05-Jul-2019	Cash Credit	Long Term	6.50	ACUITE BB- (Indicative)

				ACUITE A4 (Indicative)
	Bank Guarantee	Short Term	6.00	ACUITE A4 (Indicative)
18-Apr-2018	Cash Credit	Long Term	6.50	ACUITE BB-/Stable (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/Viewpoint
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB-/Stable (Upgraded from BB-)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)

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**About Acuite Ratings & Research:**

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