

Press Release

16 September, 2017

Raghavendra Automation Private Limited

Rating Assigned



Total Bank Facilities Rated *	Rs. 11.00 Cr.
Long Term Rating	SMERA BB- / Stable
Short Term Rating	SMERA A4+

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 11.00 crore bank facilities of Raghavendra Automation Private Limited. The outlook is '**Stable**'.

Raghavendra Automation Private Limited (RAPL) was established as proprietorship concern in 1985 and converted to private limited in 1993. The company sets up LPG bottling plants for oil companies across India. The company caters to IOCL (Indian Oil Corporation Limited, BPCL (Bharat Petroleum Corporation Limited) and HPCL (Hindustan Petroleum Corporation Limited). The day-to-day operations are managed by Mr. M. Sridharan.

Key Rating Drivers

Strengths

- **Experienced management, established operational track record**

RAPL, established in 1985 is engaged in the setting up of LPG bottling plants. The Managing Director, Mr. M. Sridharan possesses more than three decades of experience in engineering works. Further, the company is also supported by Mr. M. Manoharan, Technical Director and Mr. K. Gopalakrishnan (Project Manager) who possess extensive experience in the said field of business.

- **Healthy financial risk profile**

RAPL has healthy financial risk profile marked by net worth of Rs.4.30 crore as on 31 March, 2017 compared to Rs.3.50 crore as on 31 March, 2016. The net worth has improved on account of retention of profit during the year. The gearing (Debt-equity Ratio) stood healthy at 0.59 times as on 31 March, 2017 compared to 0.59 times as on 31 March, 2016. The debt protection metrics are healthy marked by ICR (Interest Coverage Ratio) of 6.13 times in FY2016-17 that improved from 3.25 times in FY2015-16. The DSCR (Debt service coverage ratio) stood at 4.78 times in FY2016-17. Further, the debt protection metrics has remained healthy in the absence of additional capex. The NCA/TD stood at 0.45 times in FY2016-17.

- **Modest scale of operations**

RAPL operates on a modest scale. The operating income improved to Rs.20.29 crore in FY2016-17 compared to Rs.5.70 crore in FY2015-16 on account of tenders during the year. Further, the company registered revenue of Rs.6.00 crore from April 2017 - June 2017 (Provisional). The operating income is expected to improve on account of upcoming tenders for setting up LPG bottling plants. The key sensitivity factor will be successfully bidding for the same.

Weaknesses

- **Profitability margins are susceptible to tender based business**

The operating margin declined to 8.14 percent in FY2016-17 from 9.27 percent in FY2015-16 and 16.96 percent in FY2014-15. However, the PAT margins improved to 4.02 percent in FY2016-17 from 2.97 percent in FY2015-16 on account of rental income during the year.

- **Intense competition and high dependence on government tenders**

RAPL's business risk profile remains exposed to intense competition in the tender based business. The company caters only to government organisations namely IOCL (Indian Oil Corporation Limited BPCL (Bharat Petroleum Corporation Limited) and HPCL (Hindustan Petroleum Corporation Limited). The company generated 100 percent revenue from IOCL in FY2016-17 with inherent risk of customer concentration.

- **Working capital intensive business**

The operations are working capital intensive marked by high GCA (Gross current asset) days of 140 in FY2016-17 (PY: 411 days). This is on account of high debtor days of 106 days in FY2016-17 (PY: 113 days) arising due to delay of payment realisation from the government clients. However the cash credit utilisation remain comfortable. The average utilisation for six month ended July 2017 stood at 49.09 percent.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company for arriving at the rating.

Outlook: Stable

SMERA believes that RAPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company scales up operations and also improves its working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues or if the working capital cycle further deteriorates.

About the Rated Entity - Key Financials

For FY2016-17, RAPL reported profit after Tax (PAT) of Rs.0.82 crore on operating income of Rs.20.29 crore as against PAT of Rs.0.17 crore on operating income of Rs.5.70 crore in the previous year. The net worth stood at Rs.4.30 crore as on March 31, 2017 as against Rs.3.50 crore in the previous year.

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

CRISIL Limited in its press release dated July 25, 2015 had inter-alia mentioned the following: 'CRISIL has suspended its ratings on the bank facilities of Raghavendra Automation Pvt Ltd (RAPL). The suspension of ratings is on account of non-cooperation by RAPL with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, RAPL is yet to provide adequate information to enable CRISIL to assess RAPL's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information. CRISIL considers information availability risk as a key credit factor in its rating process and non-sharing of information as a first signal of possible credit distress, as outlined in its criteria 'Information Availability Risk in Credit Ratings'

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA BB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.70	SMERA BB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.18	SMERA BB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.62	SMERA BB-/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+ (Assigned)

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ABOUT SMERA

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