Press Release

Raj Engineering Co

26 September, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 cr
Long Term Rating	SMERA BB+/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BB plus' (read as SMERA double B plus)** and short term rating of '**SMERA A4+' (read as SMERA A four plus)** on the Rs.30.00 crore bank facility of Raj Engineering Co. The outlook is **'Stable'**.

Raj Engineering Co. (REC) was established as a partnership firm by Mr. Rajinder Singh Saini and others. The firm is engaged in the design and fabrication of critical process equipments like pressure vessels, heat exchangers, columns and towers, reactors among others for refineries, petrochemicals, fertilizer complexes and steel plants. The manufacturing plants are located at Turbhe, Navi Mumbai, and Murbad, Thane.

List of key rating drivers and their detailed description:

Strengths

Established track record of operations and experienced management: The firm was established in 1973 by Mr. Rajinder Singh Saini, Mr. Pritpal Singh Saini and Raghvinder Singh Saini. The long track record has helped the firm build healthy relations with customers.

Moderate financial risk profile: The financial risk profile of REC is moderate marked by net worth of Rs. 17.36 crore as on 31 March, 2017 (Provisional) as against Rs. 17.47 crore as on 31 March, 2016. The gearing (debt-to-equity ratio) stood low at 0.48 times as on 31 March, 2017 (Provisional) as against 0.62 times as on 31 March, 2016. The total debt of Rs. 8.27 crore as on 31 March, 2017 (Provisional) comprises Rs. 1.27 crore of unsecured loans from partners, Rs. 0.37 crore as term loan and Rs. 6.63 crore of working capital borrowings. The TOL/TNW stood low at 0.87 times as on 31 March, 2017 (Provisional) as against 1.25 times as on 31 March, 2016. The interest coverage ratio (ICR) has been moderate at 3.09 times for FY2016-17 as against 3.02 times for FY2015-16.

The firm has net cash accruals of Rs. 2.59 crore in FY2017 (Provisional) with no long term debt obligation. The NCA/TD stood at 0.31 times for FY2016-17 (Provisional) as against 0.26 times in FY2015-16.

Comfortable profitability: The EBITDA margins have been comfortable at 10.27 per cent for FY2017 (Provisional) as against 10.31 per cent for FY2016 and 10.12 per cent in FY2015. However, the PAT margins have been healthy at 4.62 per cent for FY2017 as against 4.86 per cent for FY2016.

Weaknesses

Modest scale of operations: REC has modest scale of operations with operating income of Rs. 31.30 crore for FY2017 (Provisional) as against Rs. 37.43 crore for FY2016 despite being in the same line of business for more than four decades. REC has shown uneven revenue trend during the period under the study because of fluctuation in the prices of steel. The firm has moderate unexecuted order book position of Rs. 24.05 crore to be executed in FY2017-18 providing revenue visibility for the current year. These orders are from Reliance Industries Limited, Linde AG, Tehnip India Limited, Linde India Limited, Haldia Petrochemicals Limited to name a few.

Working capital intensive operations: The operations are working capital intensive marked by high gross current assets (GCA) days of 226 days for FY2017 (Prov) as against 262 days for FY2016. This is on account of high inventory holding period of 106 days for FY2017 (Provisional) as against 122 days for FY2016. The debtor days are also high at 94 days for FY2017 (Provisional) but improved from 124 days in FY2016. The high debtors are on account of receipt of payments in tranches after completion of the projects. The working capital cycle days are also high at 166 in FY2017 (Provisional) as against 162 in FY2016. The bank limit utilisation stood at around 80 per cent for the last six months ending June 2017.

Volatility in raw material prices and cyclical end user capital goods industry: The main raw material for REC is steel, the prices of which are volatile in nature. Thus, REC is exposed to volatility in raw material prices of steel. The revenue is dependent on the growth of its end-user industries – the capital goods industry which is cyclical in nature thereby affecting the profitability margins along with revenues.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of REC to arrive at the rating.

Applicable Criteria

- Manufacturing entities- https://www.smera.in/criteria-manufacturing.htm
- Application of Financial Ratios and Adjustments: https://www.smera.in/criteria-fin-ratios.htm
- Default Recognition: https://www.smera.in/criteria-default.htm

Outlook: Stable

SMERA believes that REC will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues, improvement in the financial risk profile and liquidity position while maintaining profitability margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile or liquidity position.

About the Rated Entity – key financials

For FY2016-17 (Provisional), the firm reported profit after tax (PAT) of Rs.1.44 crore on operating income of Rs.31.30 crore, compared with PAT of Rs. 1.82 crore on operating income of Rs.37.43 crore in FY2015-16.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***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	N.A	N.A	N.A	8.00*	SMERA BB+/Stable (Assigned)
Bank Guarantee - FBG, foreign SBLC-PBG	N.A	N.A	N.A	15.00	SMERA A4+ (Assigned)
Letter Of Credit	N.A	N.A	2021	7.00	SMERA A4+ (Assigned)

**Includes sublimit of Rs.5.00 crore as PC/PCFC*

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ABOUT SMERA

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