

Press Release

Rajendra Kumar and Company

May 30, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB /Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four**) on the Rs. 17.00 crore bank facilities of Rajendra Kumar and Company (RKC). The outlook is '**Stable**'.

The rating downgrade reflects consistent decline in the revenues of the firm along with deterioration in the working capital operations marked by increased Gross Current Asset (GCA) days of 141 days for FY2019 (Provisional) as against 108 days for FY2018. The revenue of the firm has been declining continuously from FY2016 to FY2019 (Prov.). The revenues declined to Rs. 56.13 crore in FY2019 (Provisional) from Rs. 73.34 crore in FY2016.

Mumbai based, Rajendra Kumar and Company (RKC) is a partnership firm established in 1985 by Mr. Rajendra Kumar. Currently, the firm is managed by Mr. Pratik Choudhary which is engaged in trading of hot and cold rolled coils and sheet, galvanized and colour coated products. The firm has tie ups with renowned service centres, warehouses for storage and transportation of the products.

Analytical Approach

Acuite has considered the standalone business and financial risk profile for RKC to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

RKC was established in 1985, thus the firm has an operational track record of around three decades in trading industry. Mr. Pratik Chaudhary (Partner) has an experience of over a decade in the aforementioned line of business. The long track record of operations and experience of management have helped the firm develop healthy relationships with its customers and suppliers. Acuite believes that RKC will sustain its existing business profile on the back of established track record of operations and experienced management.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the firm stood average marked by average net worth, debt protection metrics and coverage indicators. The net worth of RKC stood at Rs. 4.79 crore as on 31 March, 2019 (Provisional) as against Rs. 4.53 crore as on 31 March, 2018. The gearing (debt-equity) stood at 0.51 times as on 31 March, 2019 (Provisional) as against 0.42 times as on 31 March, 2018. The total debt of Rs. 2.45 crore as on 31 March, 2019 (Provisional) mainly comprises Rs. 0.94 crore of working capital borrowings, Rs. 1.50 crore of unsecured loan and Rs. 0.01 crore of long term debt. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) at 1.13 times for FY2019 (Provisional) and FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.05 times in FY2019 (Provisional) as against 0.06 times in FY2018. Debt to EBITDA stood at 1.84 times in FY2019 (Provisional) as against 1.42 times in FY2018. Acuite believes that the financial risk profile of the firm is expected to

remain average backed by average net cash accruals and in the absence of any major debt funded capex in near to medium term.

• **Deterioration in working capital operations**

The firm's working capital operations have deteriorated marked by Gross Current Assets (GCA) of 141 days for FY2019 (Provisional) as against 108 days for FY2018. The inventory levels stood at 72 days for FY2019 (Provisional) as against 61 days for FY2018. Debtor days stood at 49 days for FY2019 (Provisional) as against 36 days for FY2018. The average bank limit utilization of the firm stood at ~88.52 percent for the last six months ended April, 2019. Acuite believes that the firm's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

• **Customer and supplier concentration risk**

The firm is exposed to customer concentration risk as ~50 percent of its total sales are derived from a single customer -Delta Iron & Steel Co. Ltd. Further, the firm is also exposed to supplier concentration risk as ~70 percent of total purchases are derived from a single supplier- ARK Industries Pvt. Ltd.

• **Highly fragmented and competitive industry**

The firm is exposed to intense competition from small and big players in the iron and steel industry. This industry is also marked by limited entry barriers wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Liquidity Position

The firm has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.11 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 0.02 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.15 crore to Rs. 0.30 crore during 2019-21 against no repayment obligation. The firm's working capital operations are intensive marked by gross current asset (GCA) days of 141 days for FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 0.09 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.35 times as on 31 March 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that RKC will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook maybe revised to 'Positive' in case the firm 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 the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	56.13	61.68	63.24
EBITDA	Rs. Cr.	1.33	1.20	0.92
PAT	Rs. Cr.	0.10	0.10	0.13
EBITDA Margin	(%)	2.37	1.95	1.45
PAT Margin	(%)	0.18	0.16	0.21
ROCE	(%)	19.26	22.71	19.36
Total Debt/Tangible Net Worth	Times	0.51	0.42	0.25
PBDIT/Interest	Times	1.13	1.13	1.23
Total Debt/PBDIT	Times	1.84	1.42	0.98
Gross Current Assets (Days)	Days	141	108	104

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
07-Mar-2018	Cash Credit	Long Term	2.00	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Assigned)

*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	2.00	ACUITE B+ / Stable (Downgraded from ACUITE BB /Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Downgraded from ACUITE A4+)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Priyal Jain Analyst - Rating Operations Tel: 022-49294063 priyal.jain@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuite Ratings & Research:

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