

Press Release

Rajendra Kumar and Company

January 05, 2021

Rating Downgraded & Reaffirmed



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITÉ B- / Stable (Downgraded from ACUITE B+ /Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**Acuité B-**' (read as **ACUITÉ B minus**) from '**Acuité B+**' (read as **ACUITE B Plus**) and reaffirmed the short term rating of **Acuité A4**' (read as **ACUITÉ A4**) on the Rs. 17.00 Cr. bank facilities of Rajendra Kumar and Company(RKC). The outlook is '**Stable**'.

The rating downgrade reflects substantial deterioration in the firm's liquidity profile as utilization of the fund based limits stood around 100 percent during the last 6 months ended October 2020. Net cash from operation continued to remain negative and net cash accrual stood low at Rs 0.08 crore during FY20(Provisional). Moreover, profitability of the firm had declined as EBITDA stood at 1.80 percent in FY20 as against 2.36 percent in FY19 due to volatility in steel prices. Acuité believes liquidity profile is expected to remain weak in medium term because of low net cash accrual.

Rajendra Kumar and Company (RKC) is a partnership firm established in 1985 by Mr. Rajendra Kumar. The firm is engaged in trading of hot and cold rolled coils and sheet, galvanized and colour coated products.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RKC to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operation

RKC was established in 1985, thus the firm has an operational track record of around three decades. Currently the firm is managed by Mr Pratik Choudhary, who has decade long experience in trading business. The long track record of operations and experience of management have helped the firm develop healthy relationships with its customers and suppliers. Acuité believes that RKC will sustain its existing business profile on the back of an established track record of operations and experienced management.

Weaknesses

Weak financial risk profile

The firm has a weak financial risk profile marked by low net worth, high gearing ratio and weak coverage indicator. Net worth of the firm stood at 4.48 crore as on 31st March '20(Provisional) as against Rs 4.11 crore in the previous year. The gearing of firm stood at 1.69 times as on 31st March 2020(Provisional) as against 0.99 times as on 31st March, 2019 due to rise in debt level. Debt level includes Rs 4.74 crore of short term debt and Rs 2.84 crore of unsecured debt. TOL/TNW stood high at 5.09 times in FY20(Provisional). Debt protection metrics stood at weak as indicated from interest coverage of 1.07 times in FY20(Provisional) as compared to 1.09 times in previous year. NCA/TD stood low at 0.01 times in FY20(Provisional). Acuité believes financial risk profile is likely to remain weak in medium term because of high debt level.

Low profitability margin

RKC has low profitability as reflected from its EBITDA margin of 1.80 percent in FY20 (Provisional) as against 2.36 percent in FY19. The reason for low and volatile profitability margin is trading nature of business and fluctuation in steel prices. Acuité believes profitability margin will continue to remain low in medium term due to trading nature of business.

Liquidity profile: Weak

The firm has a weak liquidity profile as indicated from high utilization of working capital limit, which stood around 100 percent during the last 6 month ended October 2020. Net cash accrual stood low at Rs 0.08 crore in FY20 (Provisional). Firm has a modest working capital requirement as CGA stood at 102 days during FY20(Provisional). The current ratio stood at 1.35 times in FY20(Provisional) as against 1.48 times in FY19. Cash & Balance stood at Rs0.08 crore as on 31 March 2020. Acuite believes liquidity profile will continue to remain weak in medium term due to low cash accrual.

Rating sensitivities

- Substantial Improvement in financial risk profile
- Improvement in the liquidity profile.

Material covenant

None

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 may be revised to 'Positive' if the firm registers an improvement in the liquidity profile. Conversely, the outlook may be revised to 'Negative' in case the firm registers further deterioration in liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	87.92	56.14
PAT	Rs. Cr.	0.07	0.07
PAT Margin	(%)	0.08	0.13
Total Debt/Tangible Net Worth	Times	1.69	0.99
PBDIT/Interest	Times	1.07	1.09

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
30 May 2019	Cash credit	Long Term	2.0	ACUITE B+ / Stable (Downgraded from ACUITE BB /Stable)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Downgraded from ACUITE A4+)
07 March 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)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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