

Press Release

R R Tools & Equipments

May 18, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.14.00 Crore.
Long Term Rating	SMERA B+/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B Plus**) on the Rs.14.00 crore bank facilities of R R Tools & Equipments (RRTE). The outlook is '**Stable**'.

Established as a partnership firm in 1996, RRTE is an authorised dealer of industrial cutting tools, hand/machine tools and abrasives for clients such as Addison & Co. Ltd., Miranda Tools, Carborundum Universal Ltd, Bosch & Co. Ltd, Taegutec Ltd and Forbes & Co. Ltd in Delhi. Based in Delhi, RRTE is promoted and managed by Mr. Sanjay Udaypuria.

Key rating drivers

Strengths

Extensive experience of Partners:

The active Partners have experience of more than two decades in the machine tools trading industry. The partners have longstanding established relationships with its suppliers and customers which helped in generating repeat orders. Despite sluggish environment in the capital goods industry, RRTE is able to maintain the revenues at about Rs.79.00 crore over the past three years through FY2018. SMERA believes that RRTE is expected to benefit from the extensive experience of the partners over the medium term.

Moderate risk management policies:

The operations are working capital intensive marked by moderate Gross Current Asset (GCA) days of about 140 over the past four years ending March, 2018. This is primarily lead by inventory and receivables. RRTE maintains around two-three months of inventory for smooth running of operations. The inventory risk is moderate as the firm is aware of the fast and slow moving products and sources accordingly. Also, there is no major price risk associated as the prices of these products are less volatile, besides no technology obsolescence.

RRTE offers around 40-90 days of credit depending on the relation/quantity ordered by its consumers. Around 35 percent of its revenues are directly to end consumers. Balance through distributor network to whom it allows credit period of 60-90 days. RRTE has been an authorised dealer for Addison & Co Ltd, Miranda Tools, Carborundum Universal Ltd, Bosch & Co. Ltd, Taegutec Ltd and Forbes & Co. Ltd for more than a decade and gets moderate credit period of around 50-60 days.

Weaknesses

Below-average financial risk profile:

The Tangible outside Liabilities to Tangible Net Worth (TOL/TNW) has remained high in the range of 5-6 times over the past 3 years ending March, 2017 due to modest networth, high payables and higher reliance on bank lines to meet its high inventory requirements. RRTE's modest net cash accruals and high debt levels have led to modest interest coverage of 1.65 times in FY2017. Networth was modest at Rs.4.85 crore as on

March 31, 2017. High GCA, low profitability margins, higher reliance on external debt for its working capital requirement, constrains the leverage, debt protection metrics and the liquidity of RRTE over the medium term.

Low profitability margins:

The net profitability margins of RRTE are low at 0.59 percent in FY2017 as compared to 0.55 percent in FY2016. The net profit margins have been low due to trading nature of operations with no value addition.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of RRTE to arrive at this rating.

Outlook- Stable

SMERA believes that RRTE's business risk profile will remain 'Stable' over the medium term from the extensive experience of Partners. The outlook may be revised to 'Positive' in case of improvement in revenues while improving its profitability and capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of significant decline in its profitability or further stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	78.96	78.85	65.12
EBITDA	Rs. Cr.	1.80	1.96	1.54
PAT	Rs. Cr.	0.46	0.44	0.33
EBITDA Margin	(%)	2.29	2.49	2.36
PAT Margin	(%)	0.59	0.55	0.51
ROCE	(%)	11.60	13.69	21.45
Total Debt/Tangible Net Worth	Times	2.36	2.28	2.88
TOL/TNW	Times	5.34	5.47	6.55
PBDIT/Interest	Times	1.65	1.52	1.53
Total Debt/PBDIT	Times	6.35	5.03	6.70
Gross Current Assets (Days)	Days	141	128	150

Any other information: Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto 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	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B+/Stable (Assigned)
Inventory funding	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA B+/Stable (Assigned)

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ABOUT SMERA

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