

Press Release
R K FEED EQUIPMENTS

August 01, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.8.00 crore bank facilities of R K Feed Equipments (RKFE). The outlook is '**Stable**'.

R K Feed Equipments (RKFE), a partnership firm based at Halol (Gujarat) was established in 1997. The firm is engaged in providing solutions in design, manufacture and supply of parts for animal feed plants, machinery and spares. Its products also include Pellet dies, press roll shells, other spares and machineries for preparing animal feeds and Biomass-wood pellets. The manufacturing unit has installed capacity of 7000 pieces spare parts per annum.

Key Rating Drivers

Strengths

• **Extensive experience of Partners**

The Partners, Mr. Deepak Bhandari and Mr. Chandrabhan Singh have experience of more than two decades in the said line of business. The partners have longstanding established relationships with the suppliers and customers which helped the firm in generating repeat orders. Acuite believes that RKFE is expected to benefit from the extensive experience of the partners over the medium term.

• **Moderate financial risk profile**

The financial risk profile of RKFE is moderate marked by tangible net worth of Rs.9.04 crore as on 31 March, 2018 (Provisional) and Rs.6.67 crore as on 31 March, 2017. The gearing ratio stood comfortable at 1.14 times as on 31 March, 2018 (Provisional) as against 1.03 times as on 31 March, 2017. Interest Coverage Ratio stood at 9.68 times in FY2018 (Provisional) as against 7.85 times in FY2017. Net Cash Accruals stood at Rs.3.67 crore in FY2018 (Provisional) as against Rs.3.06 crore in FY2017. The NCA/TD ratio stood at 0.36 times in FY2018 (Provisional) as against 0.45 times in FY2017.

Weaknesses

• **Modest working capital cycle**

The operation of RKFE has remained moderately working capital intensive marked by Gross Current Asset days of 162 in FY2018 (Provisional) which has increased from 122 days in FY2017. This is on account of high inventory holding period inherent in the capital goods industry. The debtor days stood at 54 for FY2018 (Provisional) and 55 days for FY2017. Further, the average cash credit limit utilisation stood at ~76.07 percent for the last six months ended 31 April, 2018.

• **Cyclicality in capital goods sector and susceptibility to fluctuations in raw material prices**

The engineering and capital goods industry is highly vulnerable to economic cycles. Further, RKFE uses steel as major raw material. Any adverse effect in fluctuation of steel prices will in turn impact the operating and profitability margins.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of RKFE to arrive at the rating.

Outlook: Stable

Acuite believes that RKFE'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 - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.26	19.55	19.78
EBITDA	Rs. Cr.	4.07	3.49	3.61
PAT	Rs. Cr.	1.62	1.54	1.83
EBITDA Margin	(%)	16.78	17.83	18.24
PAT Margin	(%)	6.68	7.85	9.23
ROCE	(%)	12.45	15.52	20.02
Total Debt/Tangible NetWorth	Times	1.14	1.03	1.45
PBDIT/Interest	Times	9.68	7.85	7.99
Total Debt/PBDIT	Times	2.51	1.96	1.96
Gross Current Assets (Days)	Days	162	122	148

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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)

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
Term loans	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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