

Press Release

R K Feed Equipments

July 18, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed 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. The firm also exports to countries such as UK, Egypt, Nepal and Sri Lanka among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- Extensive experience of Partners and established track record of operations**

RKFE was established in 1997 and has established presence in the said line of business. 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. Acuité believes that RKFE is expected to benefit from the extensive experience of the partners over the medium term.

- Improving revenue and working capital cycle**

The operating income of the firm is growing at 12.63 percent Compounded Annual Growth Rate (CAGR) since 2015. The operating income has seen an increase by 16.67 percent to Rs. 28.32 crore in FY2019 (Provisional) as against Rs. 24.27 crore in FY2018. The increase in revenue is due to addition of new client and increased exports. The exports have improved to Rs.5.40 crore in FY2019 (Provisional) as against Rs.4.23 crore in FY2018. Further, the working capital cycle also improved marked by Gross Current Asset Days (GCA) of 148 days in FY2019 (Provisional) as against 156 days in FY2018. The improved GCA is marked by improvement in receivables period to 39 days in FY2019 (Provisional) as against 54 days in FY2018. The working capital utilisation also stood moderate at 56.24 percent for last six months ending June 2019. Acuité expects the firm to maintain its revenue growth and sustain improvement in working capital cycle in near future.

Weaknesses

- Moderate financial risk profile**

The financial risk profile of RKFE is moderate marked by tangible net worth of Rs. 10.07 crore as on 31 March, 2019 (Provisional) as against Rs. 9.09 crore as on 31 March, 2018. The gearing ratio stood comfortable at 1.31 times as on 31 March, 2019 (Provisional) as against 1.13 times as on 31 March, 2018. Interest Coverage Ratio stood moderate but declining at 5.84 times as on 31 March, 2019(Provisional) as against 9.98 times as on 31 March, 2018. NCA/TD ratio stood at 0.27 times in FY2019 (Provisional) as against 0.36 times in FY2018. DEBT/EBITDA stood high at 3.02 times in FY2019 (Provisional) as against 2.43 times in FY2018. Debt Service Coverage Ratio stood at 1.48 times in FY2019 (Provisional).

• **Cyclical 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. The same can be seen through decline in Operating margins to 15.17 percent in FY2019 (Provisional) from 17.30 percent in FY2018. Acuité expects the firm to maintain its operating and financial risk profile at same level.

Liquidity Position:

RKFE has adequate liquidity marked by improving working capital operations and moderate utilisation of bank limits. The net cash accruals of the firm stood adequate at Rs. 3.63 crore as against repayment obligations of Rs.2.50-2.75 crore for FY2019 (Provisional). Further, the working capital cycle also improved marked by Gross Current Asset (GCA) of 148 days in FY2019 (Provisional) as against 156 days in FY2018. The firm maintains cash and bank balances of Rs. 3.39 crore as on 31 March, 2019 (Provisional). The working capital utilisation also stood moderate at 56.24 percent for last six months ending June 2019. The current ratio stood at 1.81 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of low cash accruals and working capital intensive operations.

Outlook: Stable

Acuité 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	FY19 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	28.32	24.27	19.55
EBITDA	Rs. Cr.	4.30	4.20	3.49
PAT	Rs. Cr.	1.28	1.75	1.54
EBITDA Margin	(%)	15.17	17.30	17.83
PAT Margin	(%)	4.53	7.22	7.85
ROCE	(%)	9.53	13.23	15.52
Total Debt/Tangible Net Worth	Times	1.31	1.13	1.03
PBDIT/Interest	Times	5.84	9.98	7.85
Total Debt/PBDIT	Times	3.02	2.43	1.96
Gross Current Assets (Days)	Days	148	156	122

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Aug-2018	Term Loan	Long Term	8.00	ACUITE BB- / Stable (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
Term loans	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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