Press Release

Renuka Plasti Crafts Private Limited

September 04, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 4.60 crore
Long Term Rating	ACUITE BBB-/ Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs.4.60 crore bank facilities of Renuka Plasti Crafts Private Limited (RPCPL). The outlook is **'Stable'**.

Established in 1999, RPCPL is engaged in manufacturing of precision injection molded components like stand-up caps, conical caps, flip top caps, shoulders among others using multi-cavity high precision fully hot runner injection moulds. Based in Hyderabad (Telangana), RPCPL is promoted and managed by Mr. Anugu Dayanand Reddy.

Analytical Approach

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

Key Rating Drivers

Strengths:

- **Promoter's extensive experience**
  The promoter has more than two decades of experience in the mould and mould components industry which has helped RPCPL build healthy relationships with its stakeholders, to ensure a steady raw material supply and large offtake. Mr. A. Dayanand Reddy established 'Vasantha Tool Crafts Private Limited (VTCPL)' in August 1989 which is manufacturer of high quality precision moulding machines. With 25 years of experience through VTCPL, the company has designed and manufactured more than 2000 Precision Injection Moulds for various applications like caps & closures for FMCG and Pharmaceuticals and high precision moulds for Medical, Electrical Switch Gear, Electronics and Writing Instruments. VTCPL had registered revenues of Rs.168.44 crore against a profit after tax (PAT) of Rs.25.95 crore with minimal debt of Rs.21.37 crore as on March, 2017. In order to test and validate the moulds and also to forward integrate it, the promoter established RPCPL.

  The promoters' industry experience has helped RPCPL register healthy growth in revenue from Rs.24.55 crore in FY16 to Rs.33.82 crore (Provisional) in FY18, though modest. Repeated orders have led to capacity expansion in its installed capacity from 1700TPA to 2400TPA in FY18. Acuité believes that promoter's extensive industry experience and its established relation with suppliers and customers would aid the business risk profile of the company over the medium term.

- **Efficient working capital management and reputed clientele**
  RPCPL's operations are efficiently managed with Gross Current Assets (GCA) of about 127 days as of 31 March, 2018 on provisional basis. The GCA days are marked by moderate inventory and debtor days but partially assuaged by higher credit period extended by suppliers. RPCPL maintains an average inventory of around one month for smooth running of operations. The inventory is order backed. It receives payments against credit period of maximum 60 days from its customers. It gets

moderate credit of 50-60 days, from its suppliers on the back of strong counter-party risk. Revenue buoyancy is expected on the back of higher off take from its existing reputed clientele list such as The Himalaya Drug Company, Cavinkare Private Limited, Makson Industries, ITC Limited, Marico Limited, Hindustan Unilever Limited with whom the company has long standing relations of more than a decade. As a result, the bank lines of Rs.2.00 crore have remained unutilised over the last six months ending June, 2018. Acuité believes that despite the revenue profile to improve over the medium term, planned production metrics and healthy clientele are expected to ensure the working capital operations are efficiently managed.

- **Healthy financial risk profile**
  RPCPL's financial risk profile is marked by healthy capital structure and debt protection metrics. RPCPL was a debt free company as on 31 March, 2018 (Provisional). Despite the term loan of Rs.4.60 crore in FY19 for the capacity expansion, the gearing is expected to remain healthy at below 0.5 times over the medium term. This is due to prudent funding mix with total project cost of Rs.8.00 crore being funded by Rs.4.60 crore of term loan and remaining through internal accruals. Net worth is comfortable at Rs.14.50 crore (43 percent of revenue) as on 31 March, 2018 (Provisional) vis-à-vis Rs.12.00 crore as on March, 2017. RPCPL's moderate net cash accruals and low debt is expected to lead to strong net cash accruals to total debt (NCA/TD) and interest coverage in the range of 1.0 - 2.5 times and 26 - 28 times respectively over the medium term. The company has generated cash accruals of Rs.3.97 crore in FY2018 and no repayment obligations to service. With improving topline underpinning higher net cash accruals, the capital structure and the debt protection metrics are expected to improve and remain healthy over the medium term.

Weaknesses:

- **Steady ramp up in revenue; yet scale remains modest**
  RPCPL's revenue has been steadily growing from Rs.24.55 crore in FY16 to Rs.33.82 crore in FY18 on provisional basis; despite sharp growth in revenues, they are modest. The scale of operations is primarily constrained by modest capacity in a highly fragmented mould components industry which is also dominated by a few large players and numerous small ones. Although positive traction in revenue is expected to continue over the medium term supported by higher capacity utilisation resulting recent capacity expansion, the scale of operations is expected to improve yet remain modest.

- **Susceptibility of margins to volatility in raw material prices and competitive and fragmented nature of business**
  RPCPL margins are susceptible to volatility in raw material prices. However, despite the same, RPCPL has been able to maintain its EBITDA margins at moderate levels of 15.70 to 17.35 percent over the last three years ending March, 2018. The key raw material required is plastic granules. Adverse changes in prices may affect the profitability of the company. The company is operating in competitive and fragmented nature of industry. There are several players engaged in the moulded plastic products industry in organised and unorganised sector. Hence, the company faces pricing pressure from other competitors.

Outlook:

Acuité believes that RPCPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.82	26.43	24.55
EBITDA	Rs. Cr.	5.26	4.51	4.26
PAT	Rs. Cr.	2.68	2.29	2.06
EBITDA Margin	(%)	15.56	17.07	17.35
PAT Margin	(%)	7.93	8.67	8.41
ROCE	(%)	30.24	29.45	58.17
Total Debt/Tangible Net Worth	Times	-	-	-
PBDIT/Interest	Times	37.15	48.52	114.35
Total Debt/PBDIT	Times	-	0.03	0.03
Gross Current Assets (Days)	Days	127	119	87

Status of non-cooperation with previous CRA:

None

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-4.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.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 Loan	Not Applicable	Not Applicable	Not Applicable	4.60	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Rating Operations Tel: 040-40042327 srihari.adari@acuite.in Neha Agarwal Senior Analyst - Rating Operations Tel: 040-40045487 neha.agarwal@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.communication@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.