Press Release

Renuka Plasti Crafts Private Limited

February 05, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.9.60 Cr. (Enhanced from Rs.4.60 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs.4.60 crore bank facilities and assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs.5.00 crore bank facilities of Renuka Plasti Crafts Private Limited (RPCPL). The outlook is **'Stable'.**

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

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RPPL 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 RPPL 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 such as 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.122.48 crore against a profit after tax (PAT) of Rs.23.60 crore with minimal debt of Rs.20.23 crore as on March, 2018. In order to test and validate the moulds and also to forward integrate it, the promoter established RPPL. The promoter's industry experience has helped RPPL register healthy growth in revenue from Rs.24.55 crore in FY16 to Rs.33.92 crore in FY18, though modest. Repeated orders have led to capacity expansion in its installed capacity from 1700TPA to 2400TPA in FY18. Further, in FY2019, it has undertaken moderate capex of about Rs.4.75 crore for plant and machinery of the unit. Acuité believes that promoter's extensive industry experience and its established relations with suppliers and customers would aid the business risk profile of the company over the medium term.

- **Efficient working capital management and reputed clientele**

RPPL's operations are efficiently managed with Gross Current Assets (GCA) of about 131 days as on 31 March, 2018. The GCA days are marked by moderate inventory and debtor days but partially assuaged by higher credit period extended by suppliers. RPPL 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 such as The Himalaya Drug Company, Cavinkare Private Limited, Makson Industries, ITC Limited, Marico Limited, and 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 been utilised at 33 percent over the last nine months ending December, 2018. Acuité believes that despite the revenue profile is expected 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**

RPPL's financial risk profile is marked by healthy capital structure and debt protection metrics. Net worth is moderate at Rs.14.36 crore as on 31 March, 2018 vis-à-vis Rs.12.00 crore as on March, 2017; improved owing to accretion to reserves. Its gearing (debt -equity) stood healthy at 0.02 times as on March 31, 2018. Its total outside liabilities to total net worth (TOL/TNW) stood healthy at 0.88 times as on March 31, 2018. RPPL has undertaken moderate capex of about Rs.8.00 crore, funded out of term loan of Rs.4.6 crore and rest through internal accruals in FY2018 to build a second unit.

Further, in FY2019, it has taken up some modernisation at a project cost of Rs.4.7 crore proposed to be funded out by Rs.3.7 crore of term loans and rest through internal accruals. Despite the continued capex, the gearing is expected to be healthy at below 1 time over the medium term. RPPL has generated cash accruals of Rs.3.83 crore in FY2018. RPPL's moderate net cash accruals lead to healthy net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) in the range of 0.50 - 1.40 times and 19 - 23 times respectively over the medium term. With improving topline underpinning higher net cash accruals, the capital structure and the debt protection metrics are expected to remain healthy over the medium term.

Weaknesses

- **Steady ramp up in revenue, yet scale remains modest**

RPPL's revenue has been steadily growing from Rs.24.55 crore in FY16 to Rs.33.82 crore in FY18; 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 and on-going capex, the scale of operations is expected to improve yet remainmodest.

- **Susceptibility of margins to volatility in raw material prices and competitive and fragmented nature of business**

RPPL's margins are susceptible to volatility in raw material prices. However, despite the same, RPPL has been able to maintain its EBITDA margins at moderate levels of 14.93 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.

Liquidity Position:

RPCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. RPCPL generated cash accruals of Rs.3.3 - 3.8 crore over the last three years through FY2018; against which its repayment obligations are nil. RPPL's cash accruals are estimated in the range of Rs.4.50 - 6.5 crore over the medium term; against which its maturing debt obligations are about Rs.1.7 crore per annum. The RPPL's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 131 in FY 2018. This has led to lower reliance on working capital borrowings, the cash credit limit of RPPL remains utilised at 33 percent during the last 9 months period ended December 2018. RPCPL's DSCR stood robust at 26.59 times in FY2018. RPPL maintains unencumbered cash and bank balances of Rs.2.84 crore as on March 31, 2018. The current ratio of the RPPL stoods at 1.29 times as on March 31, 2018. RPPL is in the process of implementing capex of Rs.4.75 crore in FY2019-20 which is likely to be funded by external borrowing of about Rs.3.7 crore, and reaming through internal accruals. Acuité believes that the liquidity of RPPL continues to remain adequate over the medium term.

Outlook: Stable

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 - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.92	26.43	24.55
EBITDA	Rs. Cr.	5.07	4.51	4.26
PAT	Rs. Cr.	2.55	2.29	2.06
EBITDA Margin	(%)	14.93	17.07	17.35
PAT Margin	(%)	7.51	8.67	8.41
ROCE	(%)	28.67	29.45	58.17
Total Debt/Tangible Net Worth	Times	0.02	0.01	0.01
PBDIT/Interest	Times	35.35	48.52	114.35
Total Debt/PBDIT	Times	0.06	0.03	0.03
Gross Current Assets (Days)	Days	131	119	87

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

None

Any other information

None

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Sep-2018	Term Loan	Long Term	4.60	ACUITE BBB- / 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	4.60	ACUITE BBB- / Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- / Stable (Assigned)

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