

Press Release

Renuka Plasti Crafts Private Limited

March 10, 2021



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.30.60 Cr. (Enhanced from Rs.15.60 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.18.60 Cr bank facilities and assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.12.00 crore bank facilities of Renuka Plasti Crafts Private Limited (RPPL). The outlook is '**Stable**'.

The upgrade in the rating reflects the significant improvement in the revenues in FY2020, adequate liquidity position marked by adequate net cash accruals against moderate repayment obligations and healthy revenue visibility over the medium term. The rating also factors the increase in the installed capacity from 2400 TPA to 3000 TPA due to purchase of machineries and expectations of further increase in the installed capacity by 10-15 percent in the medium term due to purchase of additional machineries.

The rating is also upgraded since the previous rating downgrade was on account of information risk. However, the client has co-operated and provided the required documents and information.

About the Company

Hyderabad (Telangana) – based, RPPL was incorporated in the year 1999. The company is promoted by Mr. Anugu Dayanand Reddy and Mrs. Pingali Renuka Reddy. The company is engaged in manufacturing of precision injection moulded components like stand-up caps, conical caps, flip top caps and shoulders, among others. The company also assembles plastic moulded components manually or using automatic machines for making pumps which are used in lotion bottles, hand sanitizer bottles, etc., using multi-cavity high precision fully / semi hot runner injection moulds.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of RPPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters**

The promoters, Mr. Anugu Dayanand Reddy and Mrs. Pingali Renuka Reddy, have over two decades of experience in the mould and mould components industry which has helped RPPL build healthy relationships with its customers and suppliers, to ensure a steady raw material supply and large offtake. Mr. A. Dayanand Reddy established 'Vasantha Tool Crafts Private Limited (VTPL)' in August, 1989, which is a manufacturer of high quality precision moulding machines. With 25 years of experience through VTPL, the company has designed and manufactured more than 2000 Precision Injection Moulds for various applications such as caps and closures for FMCG and Pharmaceuticals and high precision moulds for Medical, Electrical Switch Gear, Electronics and Writing Instruments. VTPL had registered revenues of Rs.167.56 crore against a profit after tax (PAT) of Rs.18.03 crore with debt of Rs.22.75 crore as on March 31, 2020. 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.33.92 crore in FY2018 to Rs.50.62 crore in FY2020, though modest. For 10MFY2021, RPPL reported revenues of about Rs.61.07 crore. Repeated orders have led to capacity expansion in its installed capacity from 1200TPA to 2400TPA in FY2018. Further, in FY2021, it has undertaken moderate capex of about Rs.9.46 crore for purchasing machineries. The commercial production of 6 machines have already started from October, 2020. This has resulted in an increase in the installed capacity to 3000 TPA. Further, the commercial production of remaining 9 machines is expected in FY2022,

which is expected to further increase the installed capacity by 10-15 percent.

Acuité believes that RPPL's revenue profile is expected to improve over the medium term. Acuité also believes that the promoter's extensive experience and healthy relationship with customers and suppliers are expected to support its business risk profile over the medium term.

- **Reputed clientele**

Revenue buoyancy is expected on the back of higher off take from its existing reputed clientele such as the Himalaya Group, Cavinkare Group, Silgan Dispensing India Private Limited, etc., with whom the company has long standing relationship of more than a decade.

Weaknesses

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

RPPL's revenue has been steadily growing from Rs.33.92 crore in FY2018 to Rs.50.62 crore in FY2020; for 10MFY2021, RPPL reported revenues of Rs.61.07 crore. 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 utilization, and on-going capex for further expansion; the scale of operations is expected to improve yet remain modest.

- **Working capital intensive operations**

Despite improvement, RPPL's working capital operations continues to be intensive marked by Gross Current Asset days (GCA) of 146 days in FY2020 against 148 days in FY2019. The debtors' days were recorded at 78 days in FY2020 against 68 days in FY2019; high majorly due to the delay in the payments from customers due to the current market scenario. The inventory days were recorded at 71 days in FY2020 against 72 days in FY2019. Further, the average inventory holding policy followed by the company is generally 60 days to meet immediate orders of the customers. However, working capital bank lines remained utilized at ~96.99 percent for the last trailing 13 months ended January, 2021.

Acuité believes that RPPL's working capital intensive operations would be mitigated by the availability of adequate liquidity over the medium term.

- **Average financial risk profile**

Financial risk profile of RPPL is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and deteriorating debt protection metrics. The gearing stood at 0.95 times as on March 31, 2020 against 0.50 times as on March 31, 2019. TOL/TNW stood at 1.49 times as on March 31, 2020 against 1.06 times as on March 31, 2019. Tangible net worth of the company stood modest at Rs.16.27 crore as on March 31, 2020 against Rs.15.48 crore as on March 31, 2019. The total debt of Rs.15.42 crore as on March 31, 2020 mainly consists of long-term debt of Rs.6.24 crore and short-term debt of Rs.9.19 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood low at 5.47 times and 0.32 times respectively in FY2020; while DSCR stood at 3.88 times in FY2020.

Acuité believes that the financial risk profile is expected to remain at similar level in the medium term and the ability of the company to improve its capital structure by improvement in the net worth & timely commencement of the commercial production of the capex will be critical in order to maintain a stable credit profile.

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

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 12.93-14.88 percent over the last three years ending March 31, 2020. The key raw material required is plastic granules. Adverse changes in prices may affect the profitability of the company. The company is operating in a competitive and fragmented nature of the industry. There are several players engaged in the moulded plastic products industry in organized and unorganized sector. Hence, the company faces pricing pressure from other competitors.

- **High customer and supplier concentration risk**

The company is exposed to customer concentration risk as around 30-50 percent of its total sales for FY2020 and 10MFY2021 have been derived from a single customer – Silgan Dispensing India Private Limited. Further, the company has done around 50-60 percent of its total purchases from Reliance Industries Ltd. for FY2019, FY2020 and 10MFY2021. Hence, the company is exposed to customer and supplier concentration risk and the ability of the company to increase the scale of operations and customer base would be the key rating sensitivity in the medium term.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

RPPL has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The company generated cash accruals of Rs.3.82 crore – Rs.4.99 crore during the last three years through 2018-20 against moderate repayment obligations in the range of Rs.0.35 crore – Rs.1.71 crore. It is expected to generate cash accruals in the range of Rs.5.86 crore – Rs.10.81 crore over the medium term, against moderate repayment obligations in the range of Rs.1.84 crore – Rs.2.33 crore. Unencumbered cash and bank balances stood at Rs.0.65 crore as on March 31, 2020 with a current ratio of 1.29 times in the same period. Liquid investments stood at Rs.3.65 crore as on March 31, 2020. The working capital limits remained utilized at ~96.99 percent for last trailing 13 months ended January, 2021.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that RPPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	50.62	37.18
PAT	Rs. Cr.	0.87	1.11
PAT Margin	(%)	1.71	3.00
Total Debt/Tangible Net Worth	Times	0.95	0.50
PBDIT/Interest	Times	5.47	14.07

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jun-2020	Term Loan	Long Term	4.60	ACUITE BB+ (Downgraded; Indicative)
	Proposed Term Loan	Long Term	4.00	ACUITE BB+ (Downgraded; Indicative)
	Proposed Long Term Loan	Long Term	1.00	ACUITE BB+ (Downgraded; Indicative)
	Working Capital Term Loan	Long Term	6.00	ACUITE BB+ (Downgraded; Indicative)
09-Apr-2019	Term Loan	Long Term	4.60	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	4.00	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.00	ACUITE BBB-/ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	6.00	ACUITE BBB-/ Stable (Assigned)
05-Feb-2019	Term Loan	Long Term	4.60	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Term Loan	Long Term	4.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Long Term Loan	Long Term	1.00	ACUITE BBB-/ Stable (Assigned)
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 Loan I	Jun-2018	7.99%	Aug-2023	4.60	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Term Loan II	May-2019	8.13%	May-2024	3.50	ACUITE BBB-/ Stable (Assigned)
Working Capital Term Loan (WCTL)	Jun-2020	8.34%	May-2023	1.30	ACUITE BBB-/ Stable (Assigned)
Working Capital Facility*	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	7.20	ACUITE BBB-/ Stable (Assigned)

*Cash credit of Rs.9.00 Cr, WCDL of Rs.9.00 Cr, LC of Rs.9.00 Cr, Buyers Credit Rs.9.00 Cr, Bank Guarantee of Rs.9.00 Cr and Pre/Post Shipment Finance under LCs / PO of Rs.9.00 Cr are the subunits of the working capital facilities.

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About Acuité Ratings & Research:

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