

Press Release

River Engineering Private Limited

September 06, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 32.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE BBB**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 32.00 crore bank facilities of River Engineering Private Limited (REPL). The outlook is '**Stable**'.

Incorporated in 2007, River Engineering Private Limited is an Uttar Pradesh based company promoted by Dr. A. K. Agrawal and Mrs. Neera Agrawal. REPL is engaged in manufacturing of high end precision engineering assemblies, components and magnetic parts. It has its manufacturing unit located in Greater Noida (Uttar Pradesh). REPL caters to industry like Railways and Metro, Aerospace and Defence.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the River Engineering Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

REPL was incorporated in 2007 and has its presence in engineering industry since a decade. REPL is engaged in manufacturing of high end precision engineering assemblies, components and magnetic parts like tap changers, gear case, dampers, jumpers, aircraft components among others. Dr. A. K. Agrawal has a vast experience of 30 years in engineering industry. In 2014-15, REPL acquired the Tap Changer Business Unit from M/s. Bombardier Corporation and assimilated the same into its operation to meet the requirements of Indian Railways. Acuité believes that the company will benefit from its experienced management which helps the company maintain long standing relations with its customers like Indian Railways, Hindustan Aeronautics Limited, Barco Electronics Systems Pvt Ltd and suppliers like Golden Dollar General Trading, Hylok Corporation among others.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs.28.81 crore as on 31 March, 2018 (Provisional) as against Rs.25.31 crore in the previous year. The net worth includes unsecured loan of Rs.8.67 crore as on 31 March, 2018 (Provisional) from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing stood at 1.10 times as on 31 March, 2018 (Provisional) as against 1.46 times in the previous year. The total debt of Rs.31.74 crore includes term loan from bank of Rs.4.26 crore, working capital borrowings of Rs.16.02 crore and unsecured loan of Rs.11.46 crore. Interest Coverage Ratio (ICR) stood at 3.76 times in FY2018 (Provisional) as against 3.07 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.37 times as on 31 March, 2018 (Provisional) as against 1.99 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.27 times in FY2018 compared to 0.24 times in FY2017. Going forward, Acuité expects the company to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 226 days in FY2018 (Provisional) as compared to 179 days in FY2017. The GCA days are mainly dominated by high inventory holding of 63 days in FY2018 (Provisional) compared to 43 days in FY2017. The collection period stood at 168 days in FY2018 (Provisional) compared to 105 days in FY2017. The reason for high debtor days is because 46 percent of sales took place in the last quarter of 2018. Further, working capital is supported by high creditors of 168 days in FY2018 (Provisional). The average cash credit utilisation for the past six months stood at ~75-80 percent. Acuité believes that the efficient working capital management will be crucial in order to maintain a stable credit profile.

- **Customer concentration risk**

REPL faces high customer concentration risk. Its major customer, Indian Railways accounted for about 70-80 percent of its sales in the last three year period. The high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers.

Outlook: Stable

Acuité believes that REPL's outlook will remain 'Stable' and the company will benefit over the medium term from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues, profitability while improving working capital cycle. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	103.51	83.13	64.69
EBITDA	Rs. Cr.	13.73	14.60	14.38
PAT	Rs. Cr.	3.37	3.13	2.14
EBITDA Margin	(%)	13.26	17.56	22.23
PAT Margin	(%)	3.26	3.77	3.31
ROCE	(%)	13.67	13.88	11.90
Total Debt/Tangible Net Worth	Times	1.10	1.46	1.90
PBDIT/Interest	Times	3.76	3.07	2.63
Total Debt/PBDIT	Times	2.32	2.70	2.91
Gross Current Assets (Days)	Days	226	179	201

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3+

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About Acuité Ratings & Research:

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