

## Press Release

### River Engineering Private Limited

October 09, 2020

#### Rating Reaffirmed



|                                     |   |
|-------------------------------------|---|
| <b>Total Bank Facilities Rated*</b> | Rs.40.00 Cr.                                |
| <b>Long Term Rating</b>             | ACUITE BBB/ Outlook: Stable<br>(Reaffirmed) |
| <b>Short Term Rating</b>            | ACUITE A3+<br>(Reaffirmed)                  |

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.40.00 crore bank facilities of River Engineering Private Limited. The outlook is '**Stable**'.

#### About the company

Uttar Pradesh based River Engineering Private Limited (REPL), was incorporated in 2007, by Mr. A.K. Agarwal and Mrs. Neera Agarwal. The company is engaged in manufacturing of high-end precision engineering assemblies, components and magnetic parts like tap changers, gear case, dampers, jumpers, couplers and aircraft components among others. The company has its manufacturing units located in Greater Noida. REPL caters to Indian Railways and Metro, Aerospace and Defense sector.

#### Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of River Engineering Private Limited (REPL) for arriving at this rating.

### Key Rating Drivers

#### Strengths

- **Experience Management and established market positions**

REPL is promoted and managed by Mr. A.K. Agarwal and Mrs. Neera Agarwal, who have around three decades of experience in the engineering industry and they have been associated with the company since its inception. This has helped the company to establish a strong market position and maintain long-standing relations with its customers and customers.

Acuite believes that the company will continue to derive benefit from its experienced management and established market position over the medium term.

- **Moderate financial risk profile**

The net worth of the company stood at Rs.37.32 crore as on 31 March 2020 (Provisional) as against Rs.33.82 crore as on 31 March 2019. The capital structure of the company has been average followed by debt-funded capital expenditure in FY2019, this coupled with deterioration in the operating income has led to high financial leverage of the company marked by Debt-EBITDA of 4.28 times in FY2020 (Provisional) and 3.28 times in FY2019.

Reduced operating income has led to a deterioration in coverage metrics; however, interest coverage ratio and debt service coverage ratio still remain comfortable at 2.86 times and 1.60 times, respectively in FY2020 (Provisional). NCA/TD (Net cash accruals to total debt) stands low at 0.15 times in FY2020 (Provisional) as against 0.19 times in FY2019. Going forward, Acuite believes the financial risk profile of the company will improve backed by no major debt-funded capital expenditure, repayment of existing debt and moderate net cash accruals.

## Weaknesses

### • Working capital intensive nature of operations

The operations of the company are working capital intensive marked by Gross Current Assets of 356 days in FY2020 (Provisional) as against 247 days in FY2019. The deterioration is on account of stretch in inventory holding period to 182 days in FY2020 (Provisional) from 58 days in FY2019. The stretch in inventory holding period follows finished products getting stuck due to lockdown in March-2020. However, with the traction of revenue, the inventory level reduced to Rs.19.00 crore as on 31 August 2020 from Rs.32.50 crore as on 31 March 2020.

### • Decline in operating Income

The operating income of the company reduced by ~31 percent in FY2020 (Provisional) over FY2019 and stood at Rs.77.87 crore. As Indian railway contribute around 75 percent of the revenue and with 2019 being an election year there were limited fresh orders available in the market this coupled with finished products getting stuck with the company due to lockdown led to decline in the operating income. Company has registered operating income of ~Rs.29 crore till August 2020 and has an order book position of ~Rs.78 crore as on 31 August 2020.

## Rating Sensitivities

- Lower than expected operating performance
- Deterioration in the working capital cycle and liquidity position of the company

## Material Covenants

None

## Liquidity Position: Adequate

REPL has adequate liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.8.37 crore in FY2020 (Provisional) as against repayment obligations of Rs.3.54 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.6.84 crore to Rs.11.18 crore during FY2021-23 as against repayment obligations in the range of Rs.3.53- Rs.5.41 crore during the same period. The company's average bank limit utilization stood at ~82 percent for the last six-month period ended in August, 2020. The current ratio stands average at 1.24 times as on 31 March, 2020 (Provisional).

## Outlook: Stable

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

## About the Rated Entity - Key Financials

|                               | Unit    | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income              | Rs. Cr. | 77.87              | 113.25        |
| PAT                           | Rs. Cr. | 3.50               | 4.43          |
| PAT Margin                    | (%)     | 4.49               | 3.92          |
| Total Debt/Tangible Net Worth | Times   | 1.48               | 1.46          |
| PBDIT/Interest                | Times   | 2.86               | 3.42          |

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

Not Applicable

## Any other information

Not Applicable

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

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

### Rating History (Up to last three years)

| Date        | Name of Instrument / Facilities    | Term       | Amount (Rs. Cr) | Ratings/Outlook                  |
|-------------|------------------------------------|------------|-----------------|----------------------------------|
| 23-Jul-2019 | Cash Credit                        | Long term  | 21.00           | ACUITE BBB / Stable (Reaffirmed) |
|             | Term loans                         | Long term  | 2.15            | ACUITE BBB / Stable (Reaffirmed) |
|             | Proposed Bank Facility             | Long term  | 1.85            | ACUITE BBB / Stable (Assigned)   |
|             | Bank guarantee/Letter of Guarantee | Short Term | 10.00           | ACUITE A3+ (Reaffirmed)          |
|             | Bill Discounting                   | Short Term | 5.00            | ACUITE A3+ (Assigned)            |
| 06-Sep-2018 | Cash Credit                        | Long term  | 21.00           | ACUITE BBB / Stable (Assigned)   |
|             | Term loans                         | Long term  | 3.50            | ACUITE BBB / Stable (Assigned)   |
|             | Bank guarantee/Letter of Guarantee | Short term | 7.50            | ACUITE A3+ (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                 |
|------------------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Cash Credit                        | Not Applicable   | Not Applicable | Not Applicable | 21.00                       | ACUITE BBB/ Stable (Reaffirmed) |
| Term loans                         | April-2015       | 10.75          | September-2022 | 1.41                        | ACUITE BBB/ Stable (Reaffirmed) |
| Proposed Bank Facility             | Not Applicable   | Not Applicable | Not Applicable | 2.59                        | ACUITE BBB/ Stable (Reaffirmed) |
| Bank guarantee/Letter of Guarantee | Not Applicable   | Not Applicable | Not Applicable | 10.00                       | ACUITE A3+ (Reaffirmed)         |
| Bill Discounting                   | Not Applicable   | Not Applicable | Not Applicable | 5.00                        | ACUITE A3+ (Reaffirmed)         |

## Contacts

| Analytical   | Rating Desk  |
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| <p>Aditya Gupta<br/>Vice President- Corporate Ratings<br/>Tel: 022-49294041<br/><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Deepesh Pamnani<br/>Analyst - Rating Operations<br/>Tel: 011-49731302<br/><a href="mailto:deepesh.pamnani@acuite.in">deepesh.pamnani@acuite.in</a></p> | <p>Varsha Bist<br/>Senior Manager - Rating Desk<br/>Tel: 022-49294011<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

### About Acuité Ratings & Research:

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