

## Press Release

### ROYAL CASTOR PRODUCTS LIMITED

June 07, 2019

### Rating Assigned



|                              |                             |
|------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 73.00 Cr.               |
| Total Bank Facilities Rated* | Rs. 58.00 Cr.               |
| Long Term Rating             | ACUITE A- / Outlook: Stable |
| Short Term Rating            | ACUITE A2+                  |
| Fixed Deposit                | Rs. 15.00 Cr.               |
| Fixed Deposit Rating         | ACUITE FA/ Stable           |

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned its long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs. 58.00 crore bank facilities of Royal Castor Products Limited (RCPL). Acuite has also assigned rating of '**ACUITE FA**' (read as **ACUITE FA**) to the Rs.15.00 crore fixed deposit. The outlook is '**Stable**'.

Royal Castor Products Limited (RCPL) based in Mehsana, Gujarat was incorporated in 1995. RCPL is promoted jointly by Mumbai based Standard Greases Group (SG Group) and Siddhpur, Gujarat based Patel group. The company is engaged in the business of manufacturing castor oil derivative products. The product range caters to industries like Lubricants, Floor-coatings, Metal working fluids, Oil field chemicals, Cosmetics, Paint additives, Chocolate emulsifiers, Plasticizers, Drilling chemicals, Textile chemicals and other Industrial products. The manufacturing unit is located at Siddhpur, Mehsana with installed capacity of 30,800 MTPA. The company also has a windmill for captive consumption with installed capacity of 2.20 Mw.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RCPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### • Established track record, experienced management and reputed clientele

RCPL has established track record of over two decades in manufacturing of castor oil derivatives since 1995. The promoters of the company Mr. Durgesh Chandravarkar, Mr. Mohanbhai Patel, Mr. Haresh Vyas and Mr. Vinod Vyas who possess more than two decades of experience in same line of business and are well supported by second line of management. The company is also backed by its promoter company Standard Greases & Specialities Private Limited (SGSPL) which holds 22.83 percent stake and Kusumoto Chemicals Limited (KCL) Indian subsidiary of leading japan based chemical products manufacturing company Kusumoto & Co. The company gets support from promoter companies in form of technical expertise and extensive distribution network spread across the various countries.

RCPL have established market for its products in international as well as domestic market. The company derives 54.00 percent of its revenue from exports to countries like Japan, USA, and Europe. The company has strong and reputed clientele which are leading players in lubricants, greasing and coating industry. The clientele in International market are Innoleo LLC, Hampshire Commodities Limited, Lambarti and Exxon Mobil to name few. Domestic customer base include Mitsui Chemicals India Private Limited, Castrol India Limited, Gulf Oil Lubricants India Limited and Hindustan M L Swaco Limited among others. RCPL's longstanding relationship with customers and suppliers aids the company in securing repeat orders on a regular basis and ensure continuous flow of raw materials at better price.

### • Improving business risk profile

The operating income of the company has improved to Rs. 383.85crore in FY2019 (Provisional) from Rs. 363.64crore in FY2018. The company is growing at compounded annual growth rate (CAGR) of 7.76 percent since 2016. The improvement is on back of development of new products and shifting from bulk products namely Hydrogenated Castor Oil (HCO) and 12-Hydroxy Stearic Acid (12-HSA) to higher value added products namely Chemipearl and Poly-Amide. The operating and PAT margins of the company have also improved to 11.24 percent and 6.33 percent in FY2019 (Provisional) as compared to 9.09 percent and 4.36 percent in FY2018. The margins have improved due to increase in share of high margin products in total revenue, increase in capacity utilization level and moderate fluctuation in raw material prices i.e. Castor oil during FY2018-19. Further company has also developed products which find application in textile industry which will further add to the revenues of the company. Acuite believes continuous research and development activities undertaken by the company for developing new products and tapping of new industry will drive the future growth of the company.

### • Comfortable financial risk profile

The financial risk profile is comfortable marked by healthy net worth, comfortable debt protection measures and low gearing. The net worth of the company is Rs. 158.10 crore as on 31 March 2019 (Provisional) as against Rs.135.54 crore as on 31 March 2018. The improvement in net worth is on account of equity infusion in form of unsecured loans and fixed deposits from directors which have increased to Rs.15.15 crore as on 31 March 2019 (Provisional) as against Rs. 13.36 crore as on 31 March 2018. The company has followed a conservative financial policy as reflected by peak gearing of 0.30 times over the last three years through 2017-19. The gearing stood low at 0.04 times as on 31 March 2019 (Provisional) and 0.05 times as on 31 March 2018 against no major long term repayment obligation. The healthy revenue levels coupled with stable operating margins have resulted in comfortable debt protection measures. The interest coverage ratio (ICR) also stood comfortable at 9.31 times in FY2019 (Provisional) as compared to 8.18 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.12 times as on 31 March, 2019 (Provisional) as against 0.94 times as on 31 March, 2018. The debt service coverage ratio (DSCR) also stood high at 5.85 times in FY2019 (Provisional) as against 4.62 times in FY2018. Acuite believes that the financial risk profile of RCPL will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

## Weaknesses

### • Customer concentration risk and project risk

The company is in exports which contributes to 54.00 percent of the revenue and majorly consist of few players like Kusumoto Chemicals Limited, Exxon Mobil, Innoleo LLC and Hampshire Commodities Limited in FY2019 (Provisional) and FY2018. Further, domestic sales 30.00 percent of revenue is contributed from specific derivatives manufactured under agreement with Mitsui Chemicals India Private Limited (MC IPL). This exposes RCPL to customer concentration risk. RCPL is undertaking expansion project which will cost Rs.50.00 crore to be executed in FY2020 and FY2021. The company is exploring various alternatives in form of Joint Venture to undertake the project for meeting increasing need of specific derivative products which find application in manufacturing automobile component. Any deviation in project implementation may lead to significant cost overrun or unavailability of timely funding will impact existing business and financial risk profile of the company. Acuite believes the high credibility of clients and back to back purchases agreements with these clients reduces the concentration risk to certain extent.

### • High competition and susceptibility of raw material prices impacting the margins

RCPL faces competition from presence of large number of organized and unorganized players in the industry which constrains bargaining power with customers. The company is also exposed to risk and competition from crude based derivative products i.e. substitutes product for Castor oil products which are available at lower prices. Further, margins of the company are exposed to foreign exchange fluctuation risk as being in export and any sudden increase in price of raw material i.e. castor oil which are highly volatile in nature.

## Liquidity Position

RCPL comfortable liquidity profile is marked by comfortable net cash accruals of Rs. 25.34 crore as against repayment obligation of Rs.1.00 crore for FY2019 (Provisional). The current ratio of the company also stood 3.37 times and gross current asset days stood at 125 days in FY2019 (Provisional).The company maintains unencumbered cash and bank balances of Rs.0.22 crore as on March 31, 2019(Provisional).The company reliance on working capital borrowings is moderate; the cash credit limit in the company remains utilised at 54.00 percent approx. during the last six months period ended April 2019.The cash accruals of RCPL are estimated to remain adequate during FY2020 to 2022 to support additional planned capital expenditure of Rs.40.00 crore for setting up a new unit. The planned capex is likely to be funded through own funds and strategic alliance (JV) with its customer. Acuite believes that the liquidity of the company is likely to remain adequate over the near to medium term on account of healthy order book position, cash accruals and no major repayments over the medium term.

## Outlook: Stable

Acuite believes that the outlook of RCPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company undertakes further debt funded capital expenditure resulting in deterioration of its financial risk profile of the company, particularly its liquidity.

## About the Rated Entity - Key Financials

|                               | Unit    | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 383.85             | 363.64        | 283.19        |
| EBITDA                        | Rs. Cr. | 43.16              | 33.06         | 38.40         |
| PAT                           | Rs. Cr. | 24.31              | 15.86         | 21.40         |
| EBITDA Margin                 | (%)     | 11.24              | 9.09          | 13.56         |
| PAT Margin                    | (%)     | 6.33               | 4.36          | 7.56          |
| ROCE                          | (%)     | 22.76              | 19.03         | 24.59         |
| Total Debt/Tangible Net Worth | Times   | 0.14               | 0.13          | 0.30          |
| PBDIT/Interest                | Times   | 9.31               | 8.18          | 8.55          |
| Total Debt/PBDIT              | Times   | 0.51               | 0.50          | 0.91          |
| Gross Current Assets (Days)   | Days    | 140                | 149           | 178           |

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

Not Applicable

## 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)

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   |
|-----------------------------------|------------------|----------------|----------------|-----------------------------|-------------------|
| EPC/PCFC/BD                       | Not Applicable   | Not Applicable | Not Applicable | 55.00*                      | ACUITE A-/ Stable |
| Proposed Short Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | 3.00                        | ACUITE A2+        |
| Fixed Deposit                     | Not Applicable   | Not Applicable | Not Applicable | 15.00                       | ACUITE FA/ Stable |

\*Sub limit as cash Credit of Rs.20.00 crore, Letter of Credit and Bank Guarantee of Rs.5.00 crore.

**Contacts**

| Analytical   | Rating Desk   |
|--|---|
| <p>Aditya Gupta<br/>Head - Corporate and Infrastructure Sector Ratings<br/>Tel: 022-49294041<br/><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Rupesh Patel<br/>Analyst - Rating Operations<br/>Tel: 022-49294032<br/><a href="mailto:rupesh.patel@acuiteinratings.in">rupesh.patel@acuiteinratings.in</a></p> | <p>Varsha Bist<br/>Manager - Rating Desk<br/>Tel: 022-67141160<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

**About Acuité Ratings & Research:**

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