

Press Release
Royal Castor Products Limited
 June 24, 2020



Rating Reaffirmed and Upgraded

Total Facilities Rated*	Rs. 73.00 crore
Total Bank Facilities Rated*	Rs. 58.00 crore
Long Term Rating	ACUITE A-/ Positive (Reaffirmed, Outlook Revised to Positive)
Short Term Rating	ACUITE A1 (Upgraded From ACUITE A2+)
Fixed Deposit	Rs. 15.00 crore
Fixed Deposit Rating	ACUITE FA/ Positive (Reaffirmed, Outlook Revised)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and upgraded the short term rating to '**ACUITE A1**' (**read as ACUITE A one**) from '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs. 58.00 crore bank facilities of Royal Castor Products Limited (RCPL). The outlook is revised to '**Positive**' from '**Stable**'.

Further, Acuité has also reaffirmed the rating of '**ACUITE FA**' (**read as ACUITE FA**) to the Rs.15.00 crore fixed deposit.

Reason for Revision in Outlook

The revision in outlook is on account of expected improvement in RCPL's financial and credit profile, commensurate with healthy net cash accruals on back of continuous product development and sustenance of coverage indicators over the medium term. The financial health of RCPL, driven by robust net worth, lower reliance on bank lines, efficient working capital management and absence of long term debt. The financial risk profile of the company stood healthy marked by improved net worth which stood at Rs. 190.43 crore as on 31 March 2020 (Provisional) as against Rs.157.85 crore as on 31 March 2019. The net worth includes fixed deposits which have increased to Rs.17.55 crore as on 31 March 2020 (Provisional) as against Rs. 15.15 crore as on 31 March 2019. The company is growing at compounded annual growth rate (CAGR) of 9.76 percent since 2017. The operating income have also increased to Rs. 411.05 crore in FY2020 (Provisional) from Rs. 383.75 crore in FY2019 and 363.64 crore in FY2018. The net profit stood in same line at Rs. 23.11 crore in FY2020 (Provisional) as against Rs. 24.20 crore in FY2019. However, operating margins stood declined to 8.63 percent in FY2020 (Provisional) as compared to 11.29 percent in FY2019 and 9.09 percent in FY2018. The net profit margins have also declined to 5.62 percent in FY2020 (Provisional) as against 6.31 percent in FY2019. Acuité expects the margins are likely to remain resilient due to an improved product mix and ongoing planned project foray into a new product range. Further, the revision in outlook also factors in India's global leadership in castor oil production and expected revival in castor oil industry amid a supportive global demand environment.

Acuité has also upgraded its short term rating on account of strong liquidity profile of the company. The strong liquidity is marked by healthy net cash accruals of Rs. 35.48 crore as against no major repayment obligation. The current ratio of the company stood comfortable at 4.22 times for FY2020 (Provisional). The Gross current asset days stood improved at 122 days in FY2020 (Provisional) as against 140 days in FY2019. The working capital limits also remained utilised low at 20.00 percent approx. during the last six months period ended May 2020. However, rating is partly constrained by sluggish demand in domestic market and expected dip in revenues in current year due to impact of COVID-19. Also, volatility in margins observed due to fluctuation in raw material prices, and ongoing planned capital expenditure which is yet to commence operations.

About the Company

Royal Castor Products Limited (RCPL) based in Mehsana, Gujarat was incorporated in 1995. The company is promoted jointly by Standard Greases Group (SG Group) a leading lubricating grease manufacturer in Asia and Siddhpur, Gujarat based Patel group. Also, Japan based leading chemical manufacturer Kusumoto Chemicals holds 8.78 percent stake.

RCPL 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 an installed capacity of 33,100 MTPA. The company also has a windmill for captive consumption with installed capacity of 2.20 MW.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Royal Castor Products Limited (RCPL) to arrive at the rating.

Key Rating Drivers

Strengths

• **Established track record, experienced management and strong parentage**

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 have an experience of over two decades 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 Japan based chemical products manufacturing company Kusumoto & Co. which holds 8.78 percent stake in RCPL. The company is also well supported by promoter companies in form of technical expertise and extensive distribution network spread across the various countries.

Also, RCPL caters to domestic as well as international players. The company derives ~50 per cent of its revenue from countries like Japan, USA, and Turkey. The company also exports to various countries in Europe. RCPL caters to reputed multi-national companies from industries such as Chemicals, oil, lubricants, greasing and automobiles. Company's longstanding relationship with customers and suppliers helps in securing repeat orders on a regular basis and ensure continuous flow of raw materials at competitive pricing. Acuité believes that RCPL will continue to benefit from the promoter's extensive experience and its established presence in the castor oil industry which is well supported by improving business risk profile over the medium term.

• **Improving business risk profile and diversified product range**

The operating income of the company has improved to Rs. 411.05 crore in FY2020 (Provisional) from Rs. 383.75 in FY2019 and 363.64 crore in FY2018. The company is growing at compounded annual growth rate (CAGR) of 9.76 percent since 2017. The improvement is on back of development of new products and addition of new customers. However, operating margins of the company have declined to 8.63 percent in FY2020 (Provisional) as compared to 11.29 percent in FY2019 and 9.09 percent in FY2018. The operating margins have declined due to fluctuation in raw material prices i.e. Castor oil during FY2019-20. The net profit margins have also declined to 5.62 percent in FY2020 (Provisional) as against 6.31 percent in FY2019. The margins are likely to remain resilient due to an improved product mix and ongoing planned project foray into a new product range. Further, company has also developed products which find application in textile and automotive industry which will further add to the revenues of the company. The impact of COVID-19 on operating performance of RCPL is likely to remain minimal on account of company's intrinsic strength and expected faster reversal to normalcy.

Acuité believes continuous research and development activities undertaken by the company for developing new products and tapping of new industry is likely to drive the future growth of the company.

- **Improvement in financial risk profile and comfortable working capital cycle**

The financial risk profile is has improved in FY2020 over FY2019 backed by robust net worth, comfortable debt protection measures and low gearing. The net worth of the company is Rs. 190.43 crore as on 31 March 2020 (Provisional) as against Rs.157.85 crore as on 31 March 2019. The improvement in net worth is on account of ploughing back of profits in the business and equity infusion in form of unsecured loans, fixed deposits from directors which have increased to Rs.17.55 crore as on 31 March 2020 (Provisional) as against Rs. 15.15 crore as on 31 March 2019. The company has followed a conservative financial policy as reflected by peak gearing of 0.14 times over the last three years through 2018-20. The gearing stood low at 0.04 times as on 31 March 2020 (Provisional) as against 0.14 times as on 31 March 2019 against no major long term repayment obligation. The healthy revenue levels coupled with stable margins have resulted in comfortable debt protection measures. The interest coverage ratio (ICR) also stood comfortable at 10.86 times in FY2020 (Provisional) as compared to 9.02 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 4.04 times as on 31 March, 2020 (Provisional) as against 1.27 times as on 31 March, 2019. The debt service coverage ratio (DSCR) also stood high at 6.68 times in FY2020 (Provisional) as against 5.70 times in FY2019.

Further, working capital cycle of the company stood efficiently managed marked by improvement in Gross current asset days which stood at 122 days in FY2020 (Provisional) as against 140 days in FY2019. The improvement is backed by lower inventory holding period of 50 days in FY2020 (Provisional) as against 89 days in FY2019. The receivable days also stood improved at 46 days in FY2020 (Provisional) as against 56 days in FY2019. Acuité believes that the financial risk profile of RCPL will continue to remain healthy over the medium term on account of healthy net cash accruals and in absence of any major debt funded capex.

Weaknesses

- **Customer concentration risk and project risk**

The company has a presence in domestic as well as export market. The company's exports contributes to ~50 percent of the revenue which majorly consist of top five customers and out of total domestic sales, ~30.00 percent is derived from a single customer in FY2020 (Provisional) and FY2019. This exposes RCPL to customer concentration risk. The company has formed Joint Venture with one of the leading Japan based multi-national company to undertake the project for meeting increasing need of specific derivative products i.e. P P Compound which find application in manufacturing automobile component industry. The planned expansion project will cost Rs.50.00 crore which is to be executed in FY2021.

The new manufacturing unit will be located at Kayan, Gujarat having installed capacity of 72,000 MTPA with total cost of Rs. 50.00 crore to be incurred by RCPL will be funded through internal accruals and promoters contribution. As on May 2020, the project is ~ 50.00 percent completed, and is expected to commence by December 2020. RCPL, new unit has commitment in place for minimum capacity and will be able to recover capital expenditure cost over 7 years from start of the project. Any deviation in project implementation may lead to cost overrun or unavailability of timely funding might partly impact the existing business and financial risk profile of RCPL.

Acuité believes the high credibility of clients and back to back purchases agreements with these clients mitigates the counter party risk by certain extent. Further, RCPL's promoters extensive experience in the past, demonstrated ability to continuously develop new products by tapping new industry and technical support from reputed players reduces project 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. Also, the company is 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 susceptible to any sudden increase in price of raw material i.e. castor oil which are highly volatile in nature. The same can be observed through volatility in margins augmented from such fluctuation over the last few years. Further, declining prices of castor oil and some impact of COVID -19 may lead to a dip in the company's operating performance in FY2021.

Rating Sensitivities

- Higher-than-expected growth in revenues and profitability
- Further decline in margins and profitability
- Elongation in working capital cycle

Liquidity Position: Strong

RCPL strong liquidity profile is marked by healthy net cash accruals of Rs. 35.48 crore as against no major repayment obligation for FY2020 (Provisional). The current ratio of the company also stood comfortable at 4.22 times in FY2020 (Provisional). The Gross current asset days stood at 122 days in FY2020 (Provisional) as against 140 days in FY2019. Thus resulting in lower reliance on working capital borrowings which remained utilised at 20.00 percent approx. during the last six months period ended May 2020. The company has also maintained unencumbered cash and bank balances of Rs.4.38 crore as on March 31, 2020 (Provisional). The cash accruals of RCPL are estimated to remain adequate during FY2021 to 2023 to support additional planned capital expenditure of Rs.50.00 crore for setting up a new unit. The planned capex is likely to be funded through own funds in strategic alliance (JV) with its customer. Acuité 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: Positive

Acuité has revised the outlook on the company's rated facilities to 'Positive' on account of expected improvement in RCPL's financial and credit profile, commensurate with better net cash accruals on back of continuous product development and sustenance of coverage indicators over the medium term. The impact of COVID-19 on operating performance of RCPL is likely to be minimal on account of company's intrinsic strength. The rating may be upgraded once the business environment normalizes along with RCPL registering higher-than-expected growth in revenues, margins and expected performance from the planned capital expenditure. The outlook may be revised to 'Stable' if the company is unable to sustain its growth in revenues, margins and expected performance from the planned capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	411.05	383.75
PAT	Rs. Cr.	23.11	24.20
PAT Margin	(%)	5.62	6.31
Total Debt/Tangible Net Worth	Times	0.04	0.14
PBDIT/Interest	Times	10.86	9.02

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

Not Applicable

Any other information

None

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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Jun-2019	EPC/PCFC/BD	Long Term	55.00*	ACUITE A-/ Stable (Assigned)
	Fixed Deposit	Long Term	15.00	ACUITE FA/ Stable (Assigned)
	Proposed Bank Facility	Short Term	3.00	ACUITE A2+ (Assigned)

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
EPC/PCFC/BD	Not Applicable	Not Applicable	Not Applicable	55.00*	ACUITE A-/ Positive (Reaffirmed, Outlook Revised)
Fixed Deposit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE FA/ Positive (Reaffirmed, Outlook Revised)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A1 (Upgraded from ACUITE A2+)

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

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About Acuité Ratings & Research:

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