



Press Release

Rajputana Industries Private Limited

February 19, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 33.00 crore
Long Term Rating	ACUITE BBB/ Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 24.75 crore bank facilities and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 8.25 crore bank facilities of RAJPUTANA INDUSTRIES PRIVATE LIMITED (RIPL). The outlook is '**Stable**'.

Jaipur based, Rajputana Industries Private Limited (RIPL) was incorporated in the year 2011 by Mrs. Shivani Sheikh. The company is engaged in the manufacturing of copper, copper alloy and cupronickel casted, extruded and drawn products which are billets/ingots, Mother shells, Tubes/pipes, Hollow/solid rods, sections and profiles etc. It has an installed capacity of 9,860 metric tonnes per annum (4,760 MTPA i.e. 48.28 per cent utilization in FY2019).

About the group

Shera group (SG) was formed with the establishment of a proprietorship firm, Shera Metals & Engineers in the year 2003 by Mr. Naseem Sheikh. SEPL has three subsidiaries; Shera Metal Private Limited (SMPL), Rajputana Industries Private Limited (RIPL) and Shera Infrapower Private Limited (SIPL). SMPL is engaged in manufacturing of copper bus bar, tin plated copper bus bar, PCC poles, brass rod & wires and paper covered copper strips, with an installed capacity of 9,270 MTPA (4,933 MTPA i.e. 53.21 per cent utilization in FY2019) while RIPL was incorporated with a view to secure a backward integration of its product lines manufactured by SEPL & SMPL through manufacturing of mother tubes of brass (copper and zinc mix) tube, copper nickel (copper nickel mix) tube, and brass rod & section (copper and zinc), with an installed capacity of 9,860 MTPA (4,760 MTPA i.e. 48.28 per cent utilization in FY2019). SG caters to intermediate product requirements of various industries such as transformers, electric and electronic goods, refinery, construction, capital goods industry, sugar plants, automobile and aviation, to name a few.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Shera Energy Private Limited (SEPL), Shera Metal Private Limited (SMPL), Rajputana Industries Private Limited (RIPL) and Shera Infrapower Private Limited to arrive at this rating. The consolidation is on account of common management, presence in the same line of business and significant business and financial synergies between the entities. The group is herein referred to as "Shera Group (SG)". Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The group is a producer of copper and aluminium winding wires along with other products like bus bars of copper, aluminium and brass, copper, copper alloys & cupronickel casted, extruded and

drawn products viz billets/ ingots, mother shells, tubes/ pipes, rods, profiles and sections. The promoters and directors of the group have over a decade of experience in the aforementioned industry. SG caters to the demand of various industries such as LPG valve manufacturing, automobile, forging, marine, power generation and electrical industry, to name a few through its diversified product portfolio.

Due to the group's established track record of operations and management experience, the group has booked the revenue of Rs. 465.50 crore in FY2019 as compared to Rs. 314.42 crore in FY2018 and Rs. 213.06 crore in FY2017. Further, SEPL, SMPL and RIPL have booked revenues of Rs. 170.20 crore, Rs. 90.45 crore and Rs. 75.48 crore, respectively for the half year ended as on 30th September, 2019. The group is expected to continue to leverage its well established relationships with reputed clients and suppliers.

Acuite believes that the group will continue to benefit from its established track record of operations and experienced management.

• **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by strong net worth, moderate gearing, debt protection metrics and coverage indicators.

The net worth of the group is healthy, estimated at around Rs. 77.74 crore as on 31st March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of moderate profitability along with infusion of funds in the form of unsecured loans to the tune of Rs. 4.00 crores.

The group has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.33 times and 2.41 times as on March 31, 2018. The leverage levels however have improved to 1.19 times as on March 31, 2019. The group incurred capex of Rs.33.69 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs. 19.45 crore. The company on the other hand generated cash accruals in the range of Rs. 4.42 crore to 10.56 crore over the same period. This has led to increase in debt levels as on March 31, 2019. The gearing however is expected to improve further in the absence of any debt funded capex.

The total debt of Rs. 92.26 crore as on 31 March 2019 comprises of long-term borrowings of Rs. 36.52 crores and working capital borrowings of Rs. 55.74 crores. The group's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.12.03 crores to Rs. 14.59 crores which are adequate to service its repayment obligations while supporting incremental working capital requirements to an extent.

The revenues of the group remained stable at Rs. 465.50 crore during 2018-19, while its operating margins deteriorated marginally from 6.80 per cent in FY2018 to 6.02 per cent in FY2019. The above average profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.11 per cent and 1.85 times, respectively.

Acuite believes that the financial risk profile of the group is expected to remain moderate on back of absence of any major debt funded capex plan and moderate accretion to reserves.

Weaknesses

• **Working capital intensive nature of operations**

SG's operations are moderately working capital intensive in nature as reflected by its gross current asset (GCA) days of around 121 days as on March 31, 2019. The group has integrated nature of operations and therefore maintains an inventory of around 44 days. On the other hand, the company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of 70 days to its customers. SG's working capital limits over the last eight months period ending November 2019 was utilized at an average of 87.52 per cent, while the

peak utilization was high at around 89.52 per cent during the same period. Acuite expects the working capital requirements of the group to remain moderately intensive on account of the high credit period offered to its customers.

• **Highly competitive industry and susceptibility to raw material prices**

Copper & Aluminium are highly competitive industries characterized by low entry barriers, which results in intense competition from the large number of organized and unorganized players present in the downstream segment providing similar products/services. Hence, the bargaining power of company remains low due to competitive nature of the industry. However, the risk is mitigated to an extent on account of established track record of operations. Further, SG's revenue and profitability are susceptible to volatility in copper and aluminium prices.

Rating Sensitivity

- Further decline in profitability levels thereby impacting group's debt coverage indicators.
- Decline in average utilization levels of working capital limits.

Material Covenants

None

Liquidity: Adequate

The group has adequate liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.10.56 crore during FY2019, against maturing debt obligations of Rs. 8.14 crore. The cash accruals of SG are estimated to remain in the range of Rs. 12.03 crore to Rs. 18.05 crore in FY2020-22 as against repayment obligations of around Rs. 8.77 crore to Rs. 9.82 crore. The current ratio of the group stood at 1.14 times as on March 31, 2019. The average fund based working capital utilization for past eight months stood at 87.52 per cent, ended November, 2019 whereas average non-fund based working capital utilization for the same period stood at ~85 per cent. The unencumbered cash and bank balances of SG stood at Rs. 0.46 crore as on March 31, 2019 (PY: 0.13 crore).

Acuité believes that the liquidity profile of the group is likely to improve over the medium term on account of improvement in profitability thereby resulting in moderate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that SG will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the group generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	465.50	314.42
PAT	Rs. Cr.	7.21	5.06
PAT Margin	(%)	1.55	1.61
Total Debt/Tangible Net Worth	Times	1.19	1.33
PBDIT/Interest	Times	1.85	1.93

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>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels-55.htm>

Rating History (Up to previous 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	3.60	ACUITE BBB/ Stable (Assigned)
Term Loan	May 27, 2014	Not Applicable	February 28, 2023	6.88	ACUITE BBB/ Stable (Assigned)
Term Loan	March 29, 2017	Not Applicable	February 28, 2025	2.14	ACUITE BBB/ Stable (Assigned)
Term Loan	December 14, 2015	Not Applicable	March 31, 2024	2.80	ACUITE BBB/ Stable (Assigned)
Term Loan	December 14, 2015	Not Applicable	March 31, 2024	0.80	ACUITE BBB/ Stable (Assigned)
Term Loan	April 11, 2018	Not Applicable	March 31, 2024	3.31	ACUITE BBB/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/ Stable (Assigned)
Term Loan	October 25, 2019	Not Applicable	November 05, 2024	0.29	ACUITE BBB/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3+ (Assigned)
Proposed fund based facilities	Not Applicable	Not Applicable	Not Applicable	2.93	ACUITE BBB/ Stable (Assigned)

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About Acuité Ratings & Research:

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