

Press Release

Royal Uniforce Roofings Private Limited

March 02, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.50.00 crore bank facilities of Royal Uniforce Roofings Private Limited (RURPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the stable operating performance of RURPL marked by stable operating income, range bound profitability levels and moderate financial risk profile. The operating income stood at Rs. 45.84 Cr in FY22 as against Rs. 49.43 Cr in FY21. In 9MFY23, revenue stood at Rs.59.21 Cr and is expected to close the year in the range of Rs.70-80 Cr. The slight moderation in income in FY22 is primarily on account of subdued demand due to Covid-19 pandemic. The robust recovery noted in FY23 is mainly on account of higher realisations and trading of raw material stock. The operating margins ranged between 7-10 percent in last two years ended FY22.

The company completed its ongoing capex in January, 2023 which will increase the total production capacity to 180000 MTPA from 60000 MTPA. The current capacities are fully utilised and with deployment of additional capacities the scale of operations of the company are expected to improve significantly over the near to medium term. The total cost of the project was Rs. 36.19 Cr which was funded by debt of Rs. 23.75 Cr and balance by promoter funds. The financial risk profile though deteriorated slightly in FY22, on account of increased debt, continues to remain moderate and is expected to improve in the near to medium term on back of higher realisations and cash accruals.

Going forward, RURPL's ability to improve its scale of operations and profitability levels while maintaining its capital structure and restricting elongations in its working capital cycle will remain a key rating monitorable.

About the Company

Nagpur-based Royal Uniforce Roofings Private Limited (RURPL) was incorporated in 2009 by Mr. Shyam Sundar Sharma, Mr. Sadique Ahmed Ansari, Mr. Uday Singh Siriya and Mr. Kuldeep Arora. The company is engaged into manufacturing of Asbestos Cement Sheets and has a manufacturing facility located in Chhindwara, M.P with an annual capacity of 60,000 MT.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Royal Uniforce Roofings Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

Experienced Management

RURPL was incorporated in 2009 and is engaged in the manufacturing of asbestos cement sheets. The company is headed by Mr. Shyam Sundar Sharma, Mr. Sadique Ahmed Ansari, Mr. Uday Singh Siriya, Mr. Bipin Kumar Sharma and Mr. Kuldeep Arora who have more than a decade of experience in the aforesaid industry. This has helped the company establish a strong market position in the vicinity of Nagpur and Chhindwara region. Moreover, having a presence of more than a decade in the industry has helped the company to maintain strong relations with its customers and suppliers. Acuite believes that the company will continue to derive benefit from its promoter's experience over the medium term and additionally, with government's thrust on housing for all, the demand for asbestos sheets is likely to remain healthy in the near to medium term.

Moderate Financial Risk Profile

The financial risk profile of the company stood moderate marked by healthy net worth, moderate debt protection metrics and gearing ratio. The net worth of the company stood at Rs. 28.69 crore as of March 31, 2022, as against Rs. 21.15 crore as of March 31, 2021. The increase in net worth is due to the accretion of profits to reserves and an increase in USL, which is being considered quasi-equity.

The gearing ratio and debt protection metrics of the company in FY2022 moderated in comparison to FY2021 due to a major capex project undertaken for the expansion of its manufacturing facility. The Capex commenced in October 2021 and was completed in January 2023. The total project cost was Rs. 36.19 crore. The capacity for production has increased from 60,000 MT to 1,80,000 MT.

Funding has been done in the ratio of 65.2 percent from bank loans, 28.8 percent promoter's contribution and 5.5 percent as USL. This has been done through FY2021-2023.

Accordingly, the gearing ratio stood at 0.77 times in FY2022, compared to 0.21 times in FY2021. The interest coverage ratio (ICR) and debt-service coverage ratio (DSCR) stood at 4.64 times and 3.95 times respectively in FY2022 against 12.71 times and 10.43 times respectively in FY2021..

The total outside liabilities to tangible net worth (TOL/TNW) ratio moderated to 0.96 times in FY2022 as against 0.27 times in FY2021.

Acuite believes that the financial risk profile would improve over the medium term on account of improved business risk profile and absence of any new major debt funded capex plan.

Stable operating performance

RURPL's operating revenue stood at Rs. 45.84 crore in FY2022 as against Rs. 49.43 crore in FY2021. The revenue moderated because of the impact on demand levels due to the COVID-19 pandemic during Q1FY2022. The months of February through June usually drive major sales for the company. . In 9MFY23, revenue stood at Rs.59.21 Cr and is expected to close the year in the range of Rs.70-80 Cr.. In the current financial year, the revenue growth is driven by increased price realisations. RURPL is operating at full installed capacity as of Dec 2023, with the commencement of operations at the expanded facility, a robust growth in the revenue is expected. The operating margins decreased slightly and stood at a moderate 7.06 percent in FY2022 as against 9.89 percent in FY2021. The net profit margin also decreased slightly, to 4.03 percent in FY2022 from 4.67 percent in FY2021. The reason for the decline in margins is the increased cost of importing raw materials (mainly asbestos fibre) during the year on account of inflated ocean freight charges. Acuite believes that the revenue is likely to register a strong growth over the medium term on account of increased manufacturing capacity.

Weaknesses

Working capital cycle

The operations of RURPL are working capital intensive in nature, marked by gross current assets (GCA) of 240 days in FY2022 as against 81 days in FY2021.

The high GCA days are led by inventory days of 175 days in FY2022 against 77 days in FY2021. The inventory levels fluctuate throughout the year basis the procurement of raw materials. Approximately more than 50% of the raw material is imported, which is primarily the asbestos fibre from Brazil and Ural. The receivables days stood at 6 days as of March 31, 2022, against 2 days in FY2021. The company mostly makes cash sales, however, extends a credit of up to 10 days for some older customers. Creditor days stood at 8 days in FY2022 against 6 days in FY2021. Going forward, the working capital operations of the company are expected to improve though remain intensive in nature over the medium term.

Susceptibility of operations on government policies

One of the raw materials for the company is the asbestos fibre, which has been imported from Russia and Brazil. And the particular material is a carcinogen substance and is not environment friendly. The mining of the same is banned by the government. There are government regulations with regards to the production of materials from asbestos, so any changes in the government policies in the future can adversely impact the operations of the company.

Rating Sensitivities

- Higher than expected operating performance while maintaining profitability
- Any deterioration in the working capital cycle and liquidity profile of the company

Material covenants

None

Liquidity Position Adequate

Liquidity of RURPL is adequate marked by moderate net cash accruals against repayment obligations. The company generated net cash accruals of Rs.3.05 crore in FY2022 and Rs.3.64 crore in FY2021 against negligible repayment obligations. The company is expected to generate net cash accruals in the range of Rs. 5-9 Cr in period FY23-24 against repayment obligations of Rs. 0.41-4.17 Cr. The gross current asset days stood at 175 days as on March 31, 2022. The average bank limit utilisation was low at ~ 37.20% in the last 12 months ended December, 2022. The unencumbered cash and bank balance stood at Rs.4.00 Cr as on 31 March 2022. The current ratio stood healthy at 1.94 times in FY2022 against 1.91 times in FY2021. Acuite believes that the liquidity of the company would remain adequate over near to medium term.

Outlook:Stable

Acuite believes that RURPL will maintain a 'Stable' outlook over the medium term owing to its promoters' experience in the industry. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any decline in operating performance or significant deterioration in financial risk profile.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	45.84	49.43
PAT	Rs. Cr.	1.85	2.31
PAT Margin	(%)	4.03	4.67
Total Debt/Tangible Net Worth	Times	0.77	0.21
PBDIT/Interest	Times	4.64	12.71

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

Not applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Proposed Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Proposed Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	8.85	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.15	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
30 Dec 2021	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
12 Oct 2020	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	13.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.20	ACUITE BBB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	23.85	ACUITE BBB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.95	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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