

Press Release

Rungta Irrigation Limited

October 27, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.11.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.11.00 crore bank facilities of Rungta Irrigation Limited (RIL). The outlook is '**Stable**'.

Incorporated in the year 1993, RIL is a Delhi based company. The company is engaged in manufacturing, designing, assembling and marketing pipe based sprinkler irrigation system. The Company is also engaged in manufacturing of HDPE and PVC pipes and others. The company has two manufacturing plants located one at Ghaziabad, Uttar Pradesh and the other at Yanam, Pondicherry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RIL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

RIL was incorporated in the year 1993. The company got listed on BSE in the year 1994. The Managing Director of the company Mr. M. P. Rungta has been associated with the company since its inception and has an experience of around three decades in the aforementioned industry and is ably assisted by an experienced second line of management. Moreover, the promoters are also associated with various entities of Rungta group. Rungta group has diversified business in various sectors such as iron and steel, financial consultants, real estates, etc. The Rungta group of companies includes Ramgarh Sponge Iron Private limited, Shriram Power and Steel Private Limited and Gladiolus Finance Consultant Private Limited to name a few. The extensive experience of the promoters has helped the company to maintain a healthy relationship with its customers and suppliers. The customer profile of the company includes both the government as well as private entities.

Acuité believes that the company will benefit from the extensive experience of the management, along with a strong relationship with its customer and suppliers.

- **Moderate financial risk profile**

RIL's financial risk profile is moderate marked by healthy net worth, low gearing and moderate debt protection metrics. The company's net worth is healthy and is estimated at around Rs.63.88Cr as on March 31, 2020 as against Rs.62.99Cr as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020 on account of limited accretion to reserves during the same period. The gearing continues to remain low at around 0.22 times as on March 31, 2020 as against 0.24 times as on March 31, 2019. The total outstanding borrowing as on March 31, 2020 is Rs.13.94Cr which includes long term borrowings of Rs.2.37Cr, unsecured loan of Rs.3.07Cr and short term borrowing of Rs.7.35Cr. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stand at 0.36 times as against 0.39 times as on March 31, 2019. The company, on the other hand, generated cash accruals of Rs.1.80Cr in FY2020.

The revenue of the Company has declined by around 21.82 percent to Rs.45.14crore in FY2020 from Rs.57.74Cr in FY2019. EBITDA in absolute term has declined to Rs.(2.92)Cr in FY2020 as against Rs.0.91Cr in FY2019. This is on account of the bad debts written off amounting to Rs.3.72Cr in FY2020 and also

there has been an increase in the commission to their selling agents by around Rs.0.66Cr in the same year. However, the PAT has increased from Rs.0.58Cr in FY2019 to Rs.0.76Cr in FY2020. This is due to the increase in the non-operating income from Rs.3.24Cr in FY2019 to Rs.6.52Cr in FY2020. The NCA/TD and interest coverage ratio for FY2020 stands at 0.13times and 2.27times respectively as against 0.13times and 2.17times in FY2019, respectively. The Debt-EBITDA ratio stands at 3.94 times in FY2020 against 3.69 times in FY2019. Acuité expects that the company will maintain a moderate financial risk profile over the medium term in the absence of many major debt-funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

RIL's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 447 days in FY2020 as against 364 days in FY2019. The working capital cycle days stand at 232 in FY2020 as against 222 days in FY2019. The company maintains an inventory holding period of 65 days as on 31 March, 2020. RIL has receivable days of 201 as on 31 March, 2020 as against 187 days as on 31 March, 2019. Irregularities in the payment along with longer payment term have resulted to accumulated receivables of Rs.24.88Cr as on 31 March, 2020. The average bank limit utilization stood moderate at around 46.47 percent for six months ended July, 2020, while its peak utilization was high at around 66.54 percent during the same period. Acuité expects the working capital management to remain intensive over the medium term on account of stretched receivables.

- **Moderate Scale of operation**

The operation of RIL is considered to be at moderate level despite the company being in the aforementioned industry for around three decades. The company has achieved an operating income of Rs.45.14Cr in FY2020 as compared to Rs.57.74Cr in FY2019. Since the company deals with the government entities, the revenue of the company depends on the number of successful bids and tenders being released in the financial year.

- **Highly competitive and fragmented nature of industry**

The company is operating in a highly competitive and fragmented industry with a large number of organized and unorganized players present in the market, which limits the bargaining power of the company. However, the risk is mitigated to some extent on account of an established track record of operations and experienced management.

Liquidity Position: Adequate

The company has an adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.80Cr in FY2020 as against the maturing debt obligations in the range of Rs.1.15-1.24Cr during the same period. The cash accrual of the company is estimated to remain around Rs.1.92Cr to Rs.2.67Cr during 2021-23 against repayment obligations of around Rs.0.47Cr to Rs.1.48Cr during the same period. The company's working capital operation is intensive marked by the Gross Current Asset (GCA) days of 447 days in FY2020 as against 364 days in FY2019. The average bank limit utilization stood moderate at around 46.47 per cent for six months ended July, 2020. The firm maintains unencumbered cash and bank balances of Rs.5.37Cr as on 31 March 2020. Further, the company has an investment of Rs.15.25Cr as on March 31, 2020 which majorly includes an investment of Rs.12.42Cr in its group company- Ramgarh Sponge Iron Private Limited. The current ratio stands at 3.63 times as on 31 March 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate net cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Scaling up of operation while improving the profitability margins
- Further stretch in the working capital cycle and liquidity profile of the company

Outlook: Stable

Acuité believes that RIL will maintain a stable outlook over the medium term backed by its experienced management and established track record of operation in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	45.14	57.74
PAT	Rs. Cr.	0.76	0.58
PAT Margin	(%)	1.69	1.01
Total Debt/Tangible Net Worth	Times	0.22	0.24
PBDIT/Interest	Times	2.27	2.17

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

Brickworks, India Ratings, Care and ICRA vide their press release dated March 30, 2020; October 23, 2019; October 15, 2019 and May 27, 2019 respectively has denoted the rating of Rungta Irrigation Limited as 'BWR BB-/Stable/BWR A4' (Downgraded; Issuer Not Co-operating); IND B-/Negative/IND A4 (Issuer Not Co-operating); CARE B/CARE A4 (Issuer Not Co-operating) and ICRA B/ Stable/ ICRA A4 (Issuer Not Co-operating), respectively.

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Name of the Bank	Rating /Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	Kotak Mahindra Bank	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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