

## Press Release

### Rungta Irrigation Limited

December 17, 2021

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	11.00	ACUITE BB-   Stable   Reaffirmed	
<b>Total</b>	11.00	-	-

### Rating Rationale

Acuite has reaffirmed 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'.

### About the Company

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

### Rationale for rating reaffirmation

The rating reaffirmation consider the comforts drawn from stable business risk profile and experience of management. RIL's financial risk profile continues to remain moderate. Acuite expects the business and financial performance is likely to improve over the medium term due to improvement in the Covid-19 situation. However, the rating remains constrained on account of intensive working capital operations, modest scale of operations and stretched liquidity position.

### Analytical Approach

Acuite 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.

Acuite 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**

The financial risk profile of the company stood moderate marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.64.86 crore as on March 31, 2021 as against Rs.63.88 crore as on March 31, 2020. The total debt of the company stood at Rs.16.33 crore includes Rs.3.82 crore of long term debt and Rs.12.51 crore of short term debt as on March 31, 2021. The gearing (debt-equity) stood at 0.25 times as on March 31, 2021 as compared to 0.20 times as on March 31, 2020. Interest Coverage Ratio stood at 2.76 times for FY2021 as against 2.31 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.21 times for FY2021 as against 1.22 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.40 times as on March 31, 2021 as against 0.35 times on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.09 times for FY2021 as against 0.15 times for FY2020.

Acuité believes that the financial risk profile of the company will continue to remain moderate over the medium term.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The company has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 531 days in FY2021 as against 448 days in FY2020. The receivable days stood at 229 days in FY2021 as against 201 days in FY2020. the elongation in debtor days is due to irregularities in the payment along with longer payment term. The inventory days stood at 124 days in FY2021 as against 65 days in FY2020. The average bank limit utilisation stood high at 39.57 percent for the last 7 months ended October 2021.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

#### **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.

#### **Modest Scale of operation**

The revenue of the company declined and stood at Rs.44.45 crore in FY2021 as against Rs.45.14 crore in FY2020. The revenue of the company has declined by 1.52 percent. This also impacted the profitability margin of the company. The operating margin of the company stood at negative (0.45) percent in FY2021 as against (6.48) percent in FY2020. PAT margin stood at 1.25 percent in FY2021 as against 1.83 percent in FY2020. However, the company has shown improvement in its half yearly performance with a revenue of Rs.22.93 crore, EBITDA margin of 5.09 percent and PAT margin stood of 4.10 percent for HFY2022. 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.

#### **Liquidity Position: Stretched**

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.50-1.95 crore during the last three years through 2019-21, while the maturing debt obligation is in the range of Rs.1.20-1.60 during the same period. The company's working capital operation stood intensive marked by GCA days of 531 days in FY2021 as against 448 days in FY2020. The company maintains an unencumbered cash and bank balances of Rs.0.91 crore as on March 31, 2021. The current ratio of the company stood at 2.83 times as on March 31, 2021. The average bank limit utilization stood high at around 39.57 percent for the last 7 months ended October 2021.

#### **Rating Sensitivities**

Improvement in the scale of operations as well as profitability margins.

Further stretch in the working capital cycle and liquidity profile of the company.

### Material covenants

None.

### 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' in case the company achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	44.45	45.14
PAT	Rs. Cr.	0.55	0.83
PAT Margin	(%)	1.25	1.83
Total Debt/Tangible Net Worth	Times	0.25	0.20
PBDIT/Interest	Times	2.76	2.31

### 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

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Oct 2020	Cash Credit	Long Term	11.00	ACUITE BB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB-   Stable   Reaffirmed

\*Bank guarantee of Rs.6.00 crore as a sublimit of Cash Credit.

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## About Acuité Ratings & Research

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