

Press Release

R G Industries

December 15, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE BB+/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.15.00 Crore bank facilities of R G Industries (RGI). The outlook is '**Stable**'.

Established in the year 1999, RGI is a Punjab based partnership firm. There are six partners out of which three partners of the firm- Mr. Arvinder Pal Singh, Mr. Varpreet Singh and Mr. Daljit Singh have been associated with the firm since its inception and have an experience of more than two decades in the industry. The firm is engaged in the manufacturing of DI and CI fittings which are approved by major Government, Semi Government bodies and PSUs across India. The firm sells its product under the brand name of 'RG'. The firm is also engaged in executing different water supply and sewerage projects for different State Governments under the financial heads of Jal Jeevan Mission, AMRUT, Asian Development Bank, World Bank and Central Government. The firm also undertakes the projects under the joint ventures with profit sharing of 4:1.

Analytical Approach

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

Key Rating Drivers

Strengths

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

RGI was established in the year 1999. There are six partners out of which three partners of the firm have been associated with the firm since its inception and has an experience of more than two decades in the aforementioned industry. The extensive experience of the partners has helped the firm to maintain a healthy relationship with its customers and suppliers. The firm deals both with the government and private entities. The firm is associated with the Government departments through projects like water supply and sewerage projects. The firm supplies the DI and CI fittings both to Government and Private entity. The firm also exports its product to Nepal. The firm operates Pan India.

Acuité believes that the firm will benefit from the extensive experience of the partners, along with a healthy relationship with its customer and suppliers.

- **Moderate financial risk profile**

RGI's financial risk profile is moderate marked by moderate net worth, high gearing and moderate debt protection metrics. The firm's net worth is moderate and is estimated at around Rs.19.46Cr (Prov.) as on March 31, 2020 as against Rs.10.45Cr as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020. This is on account of infusion of capital of around Rs.6.00Cr by the partners of the firm in FY2020. The gearing has improved but still remains high

at around 1.35 times (Prov.) as on March 31, 2020 as against 2.40 times as on March 31, 2019. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stand at 3.44 times (Prov.) as against 5.62 times as on March 31, 2019. The firm, on the other hand, generated cash accruals of Rs.3.44crore (Prov.) in FY2020.

The revenue of the firm has declined by around 14.07 percent to Rs.89.99Cr (Prov.) in FY2020 from Rs.104.73Cr in FY2019. The total revenue of Rs.89.99Cr of the firm includes Rs.34.69Cr through the sales of the product and Rs.55.30Cr through the receipt from work contracts. EBITDA in absolute term is improving over the last three years through FY2020 and stands at Rs.7.27Cr (Prov.) in FY2020 as against Rs.6.58Cr in FY2019. The PAT of the firm has declined to Rs.3.06Cr (Prov.) in FY2020 from Rs.3.25Cr in FY2019. The decline in the PAT is due to increase in the interest cost. In FY2020, the firm had paid an interest cost of around Rs.4.74Cr (Prov.) as against Rs.3.72Cr in FY2019. In house manufactured product helps the firm to improve its profitability margins. The decline in the profitability level, coupled with moderate debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.16times (Prov.) and 1.86times (Prov.) respectively as against 0.17times and 2.15times in FY2019, respectively. The Debt-EBITDA ratio stands at 2.97time (Prov.) in FY2020 against 3.13 time in FY2019.

Acuité believes the financial risk profile of the firm is expected to remain moderate backed by moderate cash accruals and no major debt funded capex in near to medium term.

- **Healthy Order Book Position**

The firm has an unexecuted order book of Rs.341.88Cr as on September 2020 which gives revenue visibility over the medium term. Moreover, the firm has already registered revenue of around Rs.50.00Cr (Est.) as on September 30, 2020.

Weaknesses

- **Working capital intensive nature of operations**

RGI's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 302 days (Prov.) in FY2020 as against 208 days in FY2019. The firm has well managed its inventory marked by inventory holding period of 18 days (Prov.) as on 31 March, 2020 as against 41 days as on 31 March, 2019. However, RGI has receivables days of 136 (Prov.) as on March 31, 2020 as against 127 days as on March 31, 2019. Longer payment term has resulted to accumulated receivables of Rs.27.95Cr (Prov.) from the Government departments, Rs.5.50Cr (Prov.) from the private entities and Rs.22.08Cr (Prov.) against the Joint ventures. However, this risk can be mitigated since the accumulated receivables are mainly from the projects which are sponsored by World Bank or Asian Development Bank or Central Government related to water supply and sewerage work where funds are allocated separately. On the other hand, the firm has a credit payment period of 166 days (Prov.) as on March 31, 2020 as against 132 days as on March 31, 2019. The average bank limit utilization stood moderate at around 76.27 percent for six months ended August, 2020, while its peak utilization was high at around 83.80 percent during the same period.

Acuité expects the working capital management to remain intensive over the medium term on account of stretched receivables.

- **Competitive and fragmented industry**

The firm is engaged as a civil contractor. The particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in this sector, which can impact its profitability and operations going forward. Risk becomes more pronounced as tendering is based on the minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the partners.

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.4.06Cr (Prov.) in FY2020. The cash accrual of the firm is estimated to remain around Rs.5.00Cr to Rs.11.00Cr during 2021-23 against repayment obligations of around Rs.0.75Cr to Rs.2.19Cr during the same period. The company's working capital operation is intensive marked by the Gross Current Asset (GCA) days of 302 days (Prov.) in FY2020 as against 208 days in FY2019. The average bank limit utilization stood high at around 76.27 per cent for six months ended August, 2020. The firm maintains unencumbered cash and bank balances of Rs.2.70Cr (Prov.) as on 31 March 2020. The current ratio of the company has improved to 1.24 times (Prov.) as on 31 March 2020 from 1.14 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Rating Sensitivities

- Improvement in scale of operation backed by healthy unexecuted order book position from various government departments
- Any further slippage in the debtor collection may affect the liquidity of the company

Outlook: Stable

Acuité believes that RGI 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 firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels along with efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the firm faces stretched working capital cycle or fall in revenue or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	89.99	104.73
PAT	Rs. Cr.	3.06	3.25
PAT Margin	(%)	3.40	3.10
Total Debt/Tangible Net Worth	Times	1.35	2.40
PBDIT/Interest	Times	1.86	2.15

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

CRISIL vide its press release dated August 20, 2020 has denoted R G Industries as 'CRISIL B/Stable/A4; Issuer Not Co-Operating'.

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>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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