

Press Release

R G Industries

January 06, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	10.00		ACUITE A3 Upgraded
Bank Ratings Loan	5.00	ACUITE BBB- Stable Upgraded	
Total	15.00	-	-

*Refer annexure for details

Rating Rationale

Acuite has upgraded its long-term rating from '**ACUITE BB+**' (read as **ACUITE double B plus**) to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating from '**ACUITE A4+**' (read as **ACUITE A four plus**) to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.15.00 Crore bank facilities of **R G Industries (RGI)**. The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade reflects healthy business performance in FY 2021, moderate financial risk profile, healthy order book position and long established track record of operations. The above mentioned rating strengths are partly offset by high working capital intensity and competition in the industry.

About the Company

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

Acuite 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 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

The financial risk profile of the company stood moderate marked by comfortable healthy net worth, comfortable coverage indicators, and low gearing. The net worth of the company improved and stood at Rs. 23.85 crore as on 31 March 2021 (Provisional) as against Rs. 17.92 crore as on 31 March 2020 on account of healthy accretion in reserves. The company has followed a moderate financial policy in the past, the same is also reflected through its low gearing levels. The gearing level (debt equity) stood at 1.41 times as on 31 March 2021 (Provisional) as against 1.56 times as on 31 March 2020. The interest coverage ratio (ICR) stood at 2.12 times as on 31 March 2021 (Provisional) as against 1.38 times as on 31 March 2020. Debt service coverage ratio (DSCR) stood at 2.12 times on 31 March 2021 (Provisional) as against 1.38 times as on 31 March 2020. Total outside liabilities to Tangible net worth (TOL/TNW) ratio stood moderate at 2.83 times in FY2021 (Provisional) as against 4.50 times in FY2020.

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.277.30Cr as on November 2021 which gives revenue visibility over the medium term. Moreover, the firm has already registered revenue of around Rs.91.47Cr (Est.) as on November, 2021.

Weaknesses

>Working capital intensive nature of operations

The operations of R G Industries are moderately working capital intensive marked by Gross Current Assets (GCA) of 232 days in FY2021 (Provisional) as against 352 days in FY2020. The receivables days also stood at 162 days as on 31 March 2021 (Provisional) and 235 as on 31 March 2020. The inventory holding days stood at 28 days as on 31 March 2021 (Provisional) as against 17 days as on 31 March 2020. Further, the average cash credit limit utilization stood at around 75.13 percent during the last six months as on 30th September 2021.

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 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.

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

Material covenants

None

Liquidity Position: Adequate

Liquidity of R G Industries is adequate marked by adequate cash accruals to maturing debt obligations. The firm has generated a cash accruals of Rs.5.16 crore as on 31 March 2021 as against Rs.1.74 crore on 31 March 2020. . The cash accrual of the firm is estimated to remain around Rs.5.00Cr to Rs.7.50 Cr during 2021-23 against repayment obligations of around Rs.2.60Cr to Rs.2.96Cr during the same period. It has unencumbered cash balances of Rs.4.29crore as on 31 March 2021. The current ratio stood at 1.50 times. Further, NCA/TD (Net Cash Accruals to Total Debt) stood at 0.15 times in FY2021 as against 0.06 times in FY2020. 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.

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 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.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	132.51	90.66
PAT	Rs. Cr.	4.44	0.69
PAT Margin	(%)	3.35	0.76
Total Debt/Tangible Net Worth	Times	1.41	1.56
PBDIT/Interest	Times	2.12	1.38

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

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>
- Infrastructure Sector: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Dec 2020	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Assigned)
	Secured Overdraft	Long Term	5.00	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
Karnataka Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Upgraded (from ACUITE A4+)
Karnataka Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

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About Acuité Ratings & Research

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