

## Press Release

R G Industries

May 12, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	45.00	-	ACUITE A3   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	70.00	-	-

## Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.70.00 Crore bank facilities of R G Industries (RGI). The outlook remains '**Stable**'.

### Rationale for Reaffirmation

The rating on RGI takes considers the growth expected in the operating income and stability in operating margins over the medium term.

The rating is supported by the experienced management, long track record of operations and moderate financial risk profile. These strengths are, however, partly offset by Intensive working capital requirement, highly competitive and tender based nature of business.

### About the Company

RGI is a partnership firm established in Punjab,1999. There are six partners currently, among whom 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, approved by the major Government, Semi Government bodies and PSUs across India, and the products are sold under the brand name of 'RG'.

The firm is also engaged in water supply and executing the sewerage projects for different State Governments under the financial heads of Jal Jeevan Mission, AMRUT, Asian Development Bank, World Bank, and Central Government.

### 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

Three out of the six partners have been associated with the firm since its inception in 1999, and has an experience of more than two decades in the industry. The extensive experience has helped the firm to maintain a healthy relationship with its stakeholders.

The firm deals with both the government and private entities, and undertakes projects like water supply and sewerage projects. It supplies the DI and CI fittings both to the government and private entity. The firm operates Pan India, and the products are also exported to Nepal.

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

### **Augmentation in Business risk profile**

RGI's improved operations are apparent from the growth in revenue by ~34% in FY2022 to 169.23 crore as against Rs. 126.60 crore for FY2021. (improved by ~ 87 percent over the last three years FY 20 to FY 22). Furthermore, the firm has recorded revenue of Rs ~181 crore for FY 23. This is due to the contracts executed by the firm. The operating profit margin of the firm remains stable (minuscule improvement of 2 bps in FY 22). Operating Profit Margin of group stood at 5.51% in FY2022 as against 5.49% in FY2021. Furthermore, the net profit margin of the firm also improved more than two times on account of better absorption of interest and depreciation (economies of scale) and stood at 2.39 percent in FY2022 as against 1.08 percent in FY2021. ROCE of the firm stood at 13.84 % in FY2022.

### **Financial Risk Profile- Moderate**

RGI has Moderate financial risk profile marked by Moderate net worth and comfortable debt protection metrics. RGI's net worth stood at Rs. 25.25 Cr as on 31st March 2022 as against Rs. 20.65 Cr as on 31st March 2021. Firm moderate leverage policy. The Gearing levels (debt-to-equity) improved and stood at 1.44 times as on March 31, 2022 as against 1.81 in FY 2021. Improvement in Gearing Ratio in FY 22 is on account of profit accretions and repayment of the debt. The total outstanding debt of the group is Rs. 36.38 crore as on 31 March, 2022 which consists of long term bank borrowings of Rs.5.63 crore, short term working capital limit of Rs. 23.38 crore. Current maturities of long term Debt Rs 2.17 crore and unsecured loans of Rs 5.21 crore.

Further, the interest coverage ratio stood comfortable at 2.30 times for FY2022 as against 1.53 times in FY2021. Debt Service coverage ratio improved and stood at 1.65 times for FY2022 as against 1.46 times in FY2021. Total outside liabilities to total net worth (TOL/TNW) stood at 3.26 times as on FY2022 vis-à-vis 4.75 times as on FY2021. However, Debt-EBITA stood at 3.75 times as on 31st March 2022 as against 5.10 times as on 31st March 2021. The Net Cash Accruals to Total debt stood at 0.15 times as on FY2022 and 0.07 times for FY2021. The financial risk profile of the group is expected to remain comfortable in near term.

### **Weaknesses**

#### **Competitive and fragmented industry**

The firm faces intense competition in the sector amongst the several mid to big sized players, which can impact its profitability and operations further. The risk become more pronounced as tendering is based on the minimum amount of bidding of the contracts. However, this risk is mitigated to an extent considering the extensive experience of the partners.

#### **Working capital operations- Intensive**

Firm has an intensive working capital requirements as evident from Gross Current Assets (GCA) of 199 days in FY2022 as compared to 309 days in FY2021. Debtor days improved and stood at 115 days in FY2022 as against 198 days in FY 21. Inventory days moderated and stood at 45 days in FY2022 as against 33 days in FY2021. Fund working capital limits are utilized at ~77 per cent during the last twelve months ended March 23. Current ratio of firm stood at 1.38 times as on March 31, 2022.

Debtors are high due to major portion of revenue is booked in last Quarter which is evident as ~42 percent of total revenue for FY 23 is booked in Q4. Further Inventory Days moderated due to increase in inventory for works contract.

### **Rating Sensitivities**

Improvement in scale of operation backed by healthy unexecuted order book position from various government departments.

Timely execution of projects in hand  
Elongation in working capital.

### Material covenants

None

### Liquidity Position

#### Adequate

Firm has adequate liquidity marked by net cash accruals to its maturing debt obligations and buffer available in fund based working capital limit. Firm generated cash accruals of Rs. 5.49 crore for FY2022 as against obligations of Rs. 1.66 crore for the same period. Current Ratio stood at 1.38 times as on 31 March 2022 as against 1.31 times in the previous year. Fund based working capital Limit utilization in last twelve months ended March 23 ~77% providing additional cushion to company to meet contingencies. Cash and Bank Balances of firm stood low at Rs 0.41 crore. The liquidity of the firm is expected to improve with firm expected to generate cash accruals in the range of Rs. 11 Cr. against repayment of ~Rs. 2 Cr.

### 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	169.23	126.60
PAT	Rs. Cr.	4.05	1.37
PAT Margin	(%)	2.39	1.08
Total Debt/Tangible Net Worth	Times	1.44	1.81
PBDIT/Interest	Times	2.30	1.53

### 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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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, Acuité 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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Feb 2022	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	32.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	5.00	ACUITE BBB-   Stable (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE BBB-   Stable (Assigned)
06 Jan 2022	Secured Overdraft	Long Term	5.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB+   Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Upgraded from ACUITE A4+)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Karnataka Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE A3   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB-   Stable   Reaffirmed
Karnataka Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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