

Press Release

R R Energy Limited

January 11, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.44.12 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A3**) on the Rs. 44.12 Crore bank facilities of R R Energy Limited. The outlook is '**Stable**'.

About the company

Incorporated in 2004, R R Energy Limited (RREL), a Chhattisgarh based company, is engaged in generation of biomass power and manufacturing of ferro alloy. Currently, the company is headed by Mr. Rajendra Kumar Agrawal, Mr. Amar Agrawal, Mr. Subhash Chander Singhal, Mr. Naresh Garg, Mr. Vijay Kumar Garg and Mr. Prabhu Nath Pandit. The key promoters of the company have been in the industry for 16 years. The total capacity of the bio mass based power plant is 15MW and RREL has a power purchase agreement (PPA) with Chhattisgarh State Power Distribution Company Limited (CSPDCL) for 20 years (from March 2016) for sale of 13MW power. In addition to this, the company has a ferro alloy manufacturing plant with an installed capacity of 30,000 MTPA.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of RREL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The key promoters of R R Energy Limited (RREL), Mr. Rajendra Kumar Agarwal and Mr. Amar Agarwal have been in the industry for 16 years. Acuité derives comfort from the long experience of the promoter. Established in 2004, RREL has a long operational track record of 16 years in the renewable electricity industry. Acuité believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations.

- **Stable offtake**

RREL has signed power purchase agreements (PPA) with CSPDCL for 13 MW for 20 years till 2036. The agreement also includes a supply of 85 per cent of installed capacity subject to a maximum of 103680000 kWh every year. Presently, RREL is operating at plant load factor (PLF) of 100 per cent with an auxiliary consumption of 10 per cent. The fixed cost for supply of contracted energy is Rs.1.58/kWh and the variable cost for the same is being enhanced every year. Currently, the variable cost is Rs.5.10/kWh. Acuité believes that the PPA with CSPDCL with RREL provides comfortable revenue visibility, going forward.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by modest networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company increased to Rs.74.68 Cr as on March 31, 2020 from Rs.72.65 Cr as on March 31, 2019. Acuité has considered unsecured loans to the tune of Rs.19.97

Cr as on March 31, 2020 as part of networth as these loans are subordinated to bank debt. Gearing of the company stood below unity at 0.69 times as on March 31, 2020 as against 0.75 times as on March 31, 2019. The debt of Rs.51.64 Cr consists of working capital from the bank of Rs.20.73 Cr and term loan of Rs.2.33 Cr, unsecured loan of Rs.25.79 Cr and current maturity of term loan of Rs.2.80 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.14 times as on March 31, 2020 as against 1.43 times as on March 31, 2019. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 2.68 times as on March 31, 2020 and Debt Service Coverage Ratio (DSCR) at 1.22 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.17 times as on March 31, 2020. Acuité believes that going forward the financial risk profile of the company will remain above average over the medium term, in the absence of any major debt funded capex plans.

Weakness

- **Working capital intensive nature of operation**

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 196 days as on 31st March 2020 as compared to 156 days as on 31st March 2019. The GCA days are high on account of high inventory days and moderate debtor days. The inventory holding period stood high at 97 days as on 31st March 2020 as compared to 65 days as on 31st March 2019. The debtor period stood moderate at 73 days as on 31st March 2020 as compared to 63 days as on 31st March 2019. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and high inventory levels over the medium term.

- **Moderate scale of operations**

RREL has achieved revenues of Rs.150.29 Cr in FY2020 as compared to revenues of Rs.218.68 Cr in FY2019, thereby registering a y-o-y decline of 31.27 per cent in this year. The decline in top line is on account of decrease in sales of ferro alloys, which resulted due to slowdown in steel industry, which further led to low demand of ferro alloys. Further, the company has stopped its ferro alloy production in the current financial year due to downward export market and sharp price fluctuations. In addition to this, the slowdown in global market due to pandemic is also a vital reason for the same. However, the ferro alloy division may reopen in the last quarter of FY2021 since the demand situation is gaining ground.

Rating Sensitivity

- Improvement in working capital management
- Sustenance of their capital structure

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.8.84 Cr as on March 31, 2020 as against long term debt repayment of Rs.6.30 Cr over the same period. The current ratio stood comfortable at 1.48 times as on March 31, 2020 as compared to 1.26 times as on March 31, 2019. The fund based limit remains utilised at 92 per cent over the six months ended November, 2020. The company has availed loan moratorium, and applied for additional covid loan of Rs.3 Cr. The cash and bank balances of the company stood at Rs.0.11 Cr as on March 31, 2020 as compared to Rs.0.21 Cr as on March 31, 2019. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 196 days as on 31st March 2020 as compared to 156 days as on 31st March 2019. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on RREL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, revenue visibility and above average financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or sustenance of current operating margins. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	150.29	218.68
PAT	Rs. Cr.	2.03	4.33
PAT Margin	(%)	1.35	1.98
Total Debt/Tangible Net Worth	Times	0.69	0.75
PBDIT/Interest	Times	2.68	2.39

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.02	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	3.00	ACUITE BBB-/Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.10	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research

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