

## Press Release

R R Energy Limited

May 05, 2022

## Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.00	-	ACUITE A3+   Upgraded
Bank Loan Ratings	40.12	ACUITE BBB   Stable   Upgraded	-
Total Outstanding Quantum (Rs. Cr)	44.12	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs 44.12 crore bank facilities of R R Energy Limited (RREL). The outlook is '**Stable**'.

The rating upgrade is mainly driven by improvement in RREL's financial risk profile driven by reduction in debt level as the company has repaid a significant portion of debt during FY22. This repayment is funded through sale of their ferro alloy unit. In addition, company has entered into a power purchase agreement with state-owned discom for its biomass power plant which indicates low offtake risk. The company has adequate liquidity profile supported by its healthy net cash accruals. However, these strengths are partly offset by high working capital intensity because of stretched receivable from Chhattisgarh State Power Distribution Company Limited.

### 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.

### Analytical Approach

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

## Key Rating Drivers

### Strengths

#### Long operational record

RREL has a long operational track record of 18 years in the renewable electricity industry. The company is a part of RKTC group which has diversified business interest in various sectors such as construction, coal trading and logistic services among others. The group has a railway siding in Raigarh, Chhattisgarh. In addition, the key promoters of R R Energy Limited (RREL), Mr. Rajendra Kumar Agarwal and Mr. Amar Agarwal have been in the industry for more than a decade.

The scale of operation of the company has witnessed healthy growth in FY22 as their revenue stood at Rs 96 Cr till February 2022(Provisional) as compared to Rs 83.62 Cr in FY21. The improvement is driven by addition of revenue from trading activity. Currently, power division contributes around 76 percent of total revenue and remaining 23 percent from trading activity. Acuite believes the scale of operation will remain at a similar level over the medium term.

#### Low Offtake risk

RREL has signed power purchase agreements (PPA) for its biomass plant with CSPDCL for 13 MW for 20 years till 2036. Plant availability factor (PAF) stood at 100 percent with an auxiliary consumption of 10 percent. Acuite believes that the PPA provides healthy revenue visibility.

#### Deleveraging plan

RREL had a ferro alloy manufacturing plant with an installed capacity of 30,000 MTPA in Chhattisgarh. The said asset was sold for a consideration of Rs 20.50 Cr during Q1FY22. The sale proceed was utilized to pare the debt level through reduction in working capital limits and repayment of unsecured loans. This led to significant improvement in gearing and coverage indicators during FY22.

#### Comfortable financial risk profile

The comfortable financial risk profile of the RREL is marked by its moderate network, low gearing ratio and healthy debt protection metrics. The net worth stood at Rs. 76.74 crore as on 31st March 2021 as compared to Rs 74.68 crore in the previous year. Acuite has considered unsecured loans to the tune of Rs.19.97 Cr as on March 31, 2021 as part of network as these loans are subordinated to bank debt. The gearing of the company stood comfortable at 0.74 times as on 31st March 2021 as against 0.69 times as on 31st March, 2020 due to rise in debt level. TOL/TWN stood at 0.76 times in FY21 as against 1.14 times in FY20. RREL's interest coverage ratio stood at 2.73 times as on 31st March 2021 as against 2.68 times as on 31st March, 2020. The Net Cash accruals to Total Debt (NCA/TD) stood at 0.14 times in FY2021 as compared to 0.17 times in the previous year. Acuite believes the financial risk profile to remain comfortable over the medium term backed by steady accruals and absence of any large debt funded capex plan.

#### Moderate profit margin

The company has comfortable profit margin as EBITDA margin stood at 14.12 percent in FY21 as against 8.93 percent in FY20. The improvement is driven by the operationalization of their power unit. However, the company has posted an EBITDA margin of 11.12 percent during 11MFY22. Reason for dip in profit margin during FY22 due to addition of trading division. Acuite believes the profit margin will remain comfortable over the medium term as power division will contribute major portion of company's revenue going forward.

### Weaknesses

#### Working capital intensive

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 270 days as on 31st March 2021 as compared to 196 days as on 31st March 2020. The GCA days are high on account of high inventory and debtor days. The inventory holding period stood high at 84 days as on 31st March 2021 as compared to 97 days as on

31st March 2020. The debtor period also stood high at 140 days as on 31st March 2021 as compared to 73 days as on 31st March 2020. Acuite believes that the working capital requirement of the company will remain high because of stretched receivables and high inventory levels.

### Rating Sensitivities

- Sustenance in turnover growth along with improvement in profit margins
- Substantial improvement in financial risk profile

### Material covenants

None

### Liquidity profile: Adequate

The company has adequate liquidity profile as reflected from net cash accrual stood at Rs 7.86 crore in FY21 as against no current maturity. Going forward, the net cash accruals are expected to be in the range of Rs 9-10 Cr as against loan repayments of around Rs.2.00 Cr from FY23-FY24. The working capital utilization during last 6 months ended March 2022 stood moderate at around 85 percent. Current ratio stood at 1.99 times in FY21 as against 1.48 times in FY20. Acuite believes liquidity profile will remain adequate in medium term backed by healthy net cash accruals.

### Outlook : Stable

Acuite believes that the outlook on RREL will remain 'Stable' over the medium term on account of the long track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue with improvement in profit margin. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile or liquidity profile further elongation in its working capital cycle.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	83.08	150.29
PAT	Rs. Cr.	2.06	2.03
PAT Margin	(%)	2.48	1.35
Total Debt/Tangible Net Worth	Times	0.74	0.69
PBDIT/Interest	Times	2.73	2.68

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

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
11 Jan 2021	Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.10	ACUITE A3 (Assigned)
	Term Loan	Long Term	3.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	5.02	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	12.50	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	2.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB   Stable   Upgraded
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+   Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BBB   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BBB   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.08	ACUITE BBB   Stable   Upgraded
Yes Bank Ltd	Not Applicable	Term Loan	31-12-2021	9.5	30-11-2024	4.38	ACUITE BBB   Stable   Upgraded

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### About Acuité Ratings & Research

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