

May 17, 2013

| Facilities       | Amount (Rs. Crores) | Rating                           |
|------------------|---------------------|----------------------------------|
| Cash Credit      | 7.00                | <b>SMERA B+/Stable/ Assigned</b> |
| Bill Discounting | 3.00                | <b>SMERA A4/Assigned</b>         |
| Bank Guarantee   | 10.00               |                                  |

SMERA has assigned a rating of '**SMERA B+**' (**read as SMERA single B plus**) to Rs.7.00 crores long term facility and '**SMERA A4**' (**read as SMERA A Four**) to Rs.13.00 crores short term facilities of Reva Industries Limited (Reva). The outlook is '**stable**'. The ratings are primarily constrained by the relatively small scale of operations in a competitive and fragmented crane manufacturing industry, working capital intensive nature of operations and below average financial profile marked by declining profit margins and moderate coverage indicators. The ratings are further constrained by the prevailing recessionary trend in the capital goods industry and risk of margin fluctuations in the absence of price escalation clause. The ratings derive some support from the rich experience of the promoters and long standing association with reputed clients like Bharat Heavy Electricals Limited (BHEL).

Reva is a small player in a highly fragmented crane manufacturing industry, which is characterized by high competition due to presence of numerous small and regional players along with large players. The company has an established track record of around three decades in manufacturing EOT cranes, electric wire rope hoists, jib cranes and other material handling equipments. Reva's operations are small in scale despite its long track record; however the revenues have increased consistently over the last five years at a CAGR of 26.34%. Reva has been catering to the requirements of Bharat Heavy Electrical Limited and the Central Organization for Modernization of Workshops (COFMOW), Ministry of Railways for over two decades and has executed various projects across India. Reva's performance is largely dependent on the capex incurred in the power, infrastructure, steel and engineering sectors. Any slowdown in the capex plans or delay in the execution of projects in these sectors would directly impact the revenues of the company.

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The overall operations of the company are managed by Mr. Balraj Goel and Mr. Rohit Goel, who are well-qualified and have relevant experience. They are ably supported and assisted by an experienced second line of management. Reva has two manufacturing units located in Faridabad, Haryana.

The business operations of the company are working capital intensive due to the extended credit period given to customers on account of their high bargaining power. Therefore, collection days level remains stretched and has increased from 114 days in FY 2008 to 181 days in FY 2012 on account of delays in project execution. Moreover, approximately 10% of the order value is received post-installation of the cranes, which entails greater working capital requirement and higher utilization of the cash credit facility (utilization level of 89.4% recorded during the six months ending November 2012).

Reva has a below average financial profile marked by gearing at 1.05 times as on 31 Mar 2012. The net profit margin has declined over the last three years from 4.80% in FY 2010 to 2.93% in FY 2012, mainly on account of increase in interest and manufacturing costs. The interest coverage ratio has declined from 4.51 times in FY 2009 to 1.92 times in FY 2012 and the DSCR has declined from 3.54 times in FY 2009 to 1.71 times in FY 2012. Owing to the absence of price escalation clause, the company would be unable to pass on the increase in costs due to delays in project execution, thereby compromising its profitability.

Reva has a moderate order book position of Rs.36.23 crores as on 28 Feb 2013, which also includes orders received around two years back and pending execution due to delays in the commencement of projects at the customers' end. Reva has earned revenue of Rs. 24.73 crores during the period April 2012 to December 2012 (as per CA certified provisional financials). The company is projecting revenue of Rs. 35.61 crores for FY 2013, which is likely to be on the lower side on account of delays in project execution.

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## **Outlook: Stable**

Reva has a 'Stable' outlook. SMERA believes that Reva will continue to maintain its financial risk profile at a moderate level on the back of its longstanding association with clients and absence of any significant debt funded expansion plan in the near term. The company's ability to scale up operations while maintaining profit margins and retaining comfortable liquidity position remains the key rating sensitivity.

## **About the Company**

Reva Industries Limited was incorporated in 1979 to take over the running business of Reva Industries, a partnership firm established in 1963. The company is engaged in designing, manufacturing, testing, erection and commissioning of EOT cranes, electric wire rope hoists, jib cranes and other material handling equipments. The main customers of the company include BHEL and COFMOW. Reva's operations were dormant during April 2003 to March 2005 due to disputes amongst the previous directors. The company is currently managed by Mr. Balraj Goel and Mr. Rohit Goel, who are well-qualified and experienced. The company has an administrative office and two manufacturing units located in Faridabad, Haryana.

For FY 2012, Reva reported net profit of Rs. 0.89 crores on total income of Rs. 30.68 crores as against net profit of Rs. 0.95 crores on total income of Rs. 26.18 crores for FY 2011. The company has booked revenue of Rs. 24.73 crores during the period April 2012 to December 2012.

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