

February 10, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit - I*	10.00	SMERA BB+/Stable (Assigned)
Cash Credit - II^	14.00	SMERA BB+/ Stable (Assigned)
Buyer's Credit - I	12.00	SMERA A4+ (Assigned)
Buyer's Credit - II**^	10.00	SMERA A4+(Assigned)

* Includes a sublimit of working capital demand loan of Rs.8.00 crore and a sublimit of bank guarantee of Rs.0.50 crore

** Includes a sublimit of bank guarantee of Rs.1.00 crore

^The total utilisation is restricted to Rs.20.00 crore

SMERA has assigned a long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.42.00 crore bank facilities of Rare Earth Conveyors Private Limited (RECPL). The outlook is '**Stable**'. The ratings are supported by the company's healthy growth in revenues and profitability. The ratings are also supported by the company's strong financial risk profile and experienced management. However, the ratings are constrained by the company's customer concentration risk. The ratings are also constrained by the company's exposure to raw material price volatility and intense competition.

RECPL is a Delhi-based company engaged in processing of rubber conveyor belts, including synthetic conveyor belts and steel cord conveyor belts. RECPL registered healthy revenue compound annual growth rate (CAGR) 21 per cent during the past five years. The company achieved revenues of Rs.81.00 crore during April to November 2013. RECPL has healthy near-term revenue visibility with pending orders worth Rs. 37.00 crore (as on November 30, 2013), which are likely to be executed over three months. RECPL has maintained comfortable PAT margins in the range of 2.5 per cent to 3.5 per cent during the past two years. The company has healthy interest coverage ratio of 4.85 times in FY2012-13 (refers to financial year, April 01 to March 31). RECPL's leverage stands at 2.86 times as on as on March 31, 2013. However, the company's total debt of Rs.29.34 crore (as on March 31, 2013) includes interest-free unsecured loans of Rs.8.85 crore from promoters.

RECPL benefits from its experienced management. Mr. Rakesh Khurana and Mr. Pankaj Khurana, Directors of RECPL, have two decades of experience in the conveyor belt industry.

RECPL caters to several reputed customers including JSW Steel Ltd., Hindustan Industrial Corporation and Bhushan Steel Limited. However, RECPL is exposed to customer concentration risk as sales to JSW Steel Ltd. accounts for around 30 per cent of RECPL's total revenues. Moreover, the company is exposed to the inherent cyclicalities associated with its end-user industries – steel and cement.

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RECPL's profit margins are susceptible to volatility in prices of raw materials, which include rubber, polyester yarn and PVC resin. The company incurred operating losses in FY2010–11 on account of sharp increase in the raw material cost.

RECPL has limited bargaining power owing to intense competition from other players engaged in manufacturing of rubber conveyor belts.

Outlook: Stable

SMERA believes the outlook on RECPL's rated facilities will remain stable over the medium term on account of the company's healthy revenue visibility. The outlook may be revised to 'Positive' in case the company achieves higher-than-expected revenues while registering healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account of decline in revenues and profitability.

About the company

RECPL, incorporated in 2007, is a Delhi-based company promoted by Mr. Rakesh Khurana and Mr. Pankaj Khurana. RECPL is engaged in processing of rubber conveyor belts.

On July 01, 2011 RECPL acquired Rare Earth International — a partnership firm (established in 1990 by Mr. Rakesh Khurana and Mr. Pankaj Khurana) engaged in processing of rubber conveyor belts.

For FY2012–13, RECPL reported PAT of Rs.3.35 crore on operating income of Rs.105.14 crore, as compared with PAT of Rs.2.08 crore on operating income of Rs.81.95 crore for FY2011–12. The company' net worth stood at Rs.10.27 crore as on March 31, 2013, as compared with Rs.5.82 crore a year earlier.

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