

Rare Earth Conveyors Private Limited: Reaffirmed

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit – I*	10.00	SMERA BBB-/Stable (Reaffirmed)
Cash Credit – II^	14.00	SMERA BBB-/Stable (Reaffirmed)
Buyer's Credit – I	12.00	SMERA A3 (Reaffirmed)
Buyer's Credit – II**^	10.00	SMERA A3 (Reaffirmed)

* 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 reaffirmed the long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.42.00 crore bank facilities of Rare Earth Conveyors Private Limited (RECPL). The outlook is '**Stable**'.

The ratings continue to derive comfort from the company's experienced management, reputed customer base and comfortable financial risk profile. However, the ratings are constrained by the working capital intensive operations, volatility in raw material prices and intense market competition in the conveyor belt industry.

Update

RECPL reported stagnant revenues of Rs.135.15 crore in FY2015-16 (provisional) compared to Rs.134.41 crore in FY2014-15 on account of subdued end user industry ie. mining, steel and power performance. However, the company has earned revenues of Rs.49.09 crore from April to July, 2016 and has orders worth Rs.69.24 crore, thus reflecting medium term revenue visibility. The financial risk profile is comfortable with gearing of around 1.35 times as on March 31, 2016. The total debt of Rs.41.13 crore includes interest free unsecured loans of Rs.14.75 crore and short term borrowings of Rs.26.39 crore. Further, the net worth of Rs.30.51 crore also includes quasi equity of Rs.8.17 crore as it is subordinated to bank loans. The interest coverage ratio stands comfortable at around 2.39 times in FY2015-16.

The operations continue to be working capital intensive with increase in GCA to 215 days in FY2015-16, from 193 in FY2014-15. Further, the subdued end user industry performance has led to stretched receivables that increased from 85 days in FY2014-15 to 98 days in FY2015-16. Also, the average cash credit utilisation stands at around ~90 per cent from February to July, 2016.

The company purchased land worth ~Rs.5.00 crore in December, 2014 funded through promoter's contribution to set up a manufacturing plant in Dahej, Gujarat which was expected to be operational in the first quarter of 2017. However, the project is put on hold due to unfavourable market conditions and further details on project execution are yet to be finalised. There are no financial implications as a result of the same.

Rating Sensitivity Factors

- Scaling up operations and profitability amidst intense competition
- Efficient working capital management
- Debt funded capex plan

Outlook – Stable

SMERA believes that the outlook on RECPL's facilities will remain stable over the medium term on account of the company's experienced management. The outlook may be revised to 'Positive' if the company achieves higher-than-expected revenues while registering healthy profit margins and maintaining a comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and liquidity pressure on account of delays in project execution and decline in revenues and profitability.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

RECPL, incorporated in 2007 (the erstwhile Rare Earth International, a partnership firm) is a Delhi-based company promoted by Mr. Rakesh Khurana and Mr. Pankaj Khurana. The company is engaged in the processing of rubber conveyor belts.

Rating History

Date	Name of the Instruments	Size of the Issue (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
10 Feb, 2014	Cash Credit – I*	10.00	SMERA BB+ (Assigned)	-	Stable
	Cash Credit – II^	14.00	SMERA BB+ (Assigned)	-	Stable
	Buyer's Credit – I	12.00	-	SMERA A4+ (Assigned)	-
	Buyer's Credit – II**^	10.00	-	SMERA A4+ (Assigned)	-
09 Jul, 2015	Cash Credit – I*	10.00	SMERA BBB- (Upgraded)	-	Stable
	Cash Credit – II^	14.00	SMERA BBB- (Upgraded)	-	Stable
	Buyer's Credit – I	12.00	-	SMERA A3 (Upgraded)	-
	Buyer's Credit – II**^	10.00	-	SMERA A3 (Upgraded)	-

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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