

Press Release

RARE EARTH CONVEYORS PRIVATE LIMITED

February 05, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB-**' (read as **SMERA BBB 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. The outlook is '**Stable**'.

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.

Key Rating Drivers

Strengths

- **Established track record and Experienced Management**

Rare Earth Conveyers Private Limited (RECPL) was incorporated in 2007 by Mr. Rakesh Khurana and Mr. Pankaj Khurana. The promoters of the company has over two decades of experience in the manufacturing and trading of rubber conveyor belts. The promoters backed by their established presence in the industry have been able to generate long term relationship with customers as well as suppliers.

- **Above Average Financial Risk Profile**

The company has above average financial risk. The overall gearing stands moderately high at around 1.46 times in FY2017. However major debt component of Rs.42.48 crore includes interest free unsecured loans from directors of Rs.14.37 crore and Rs.28.11 crore of short term borrowings. Interest coverage ratio stands at 1.35 times in FY2017 as compared to 1.33 times for FY2016. Further the company has healthy networth of Rs. 29.14 crore as on 31 March 2017 as compared to Rs. 28.40 crore as on 31 March 2016.

- **Diversified and reputed customer base**

The firm caters to reputed clientele like JSW Group, Aditya Birla Group, Ultratech Group etc. The target for FY2018 is ~Rs. 145-147 crore, the reason being increase in customer base from private sectors to public sectors.

Weaknesses

- **Fluctuations in profitability margins due to trading nature of business**

RECPL has low profitability marked by operating margin of 3.36 percent and PAT (profit after tax) margin of 0.55 percent in FY2017 as against operating margin of 2.82 percent and profit margin of 0.42 percent in FY2016. The profitability remains low due to trading nature of business. The margins are also susceptible to volatility in raw materials of rubber.

- **Competition from large and medium players**

The company operates in a highly competitive rubber industry with several organized and unorganized players which limit the bargaining power of RECPL.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook of the RECPL will remain stable over the medium term on account of healthy revenue visibility. Outlook will be revised to positive if firm able to increase scale of operations while maintaining healthy profitability. On the contrary; the outlook will be revised to negative in a scenario of decline in the scale of operations resulting into decline in the revenues affecting margins and liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	136.78	135.24	134.41
EBITDA	Rs. Cr.	4.60	3.82	6.76
PAT	Rs. Cr.	0.75	0.56	3.18
EBITDA Margin	(%)	3.36	2.82	5.03
PAT Margin	(%)	0.55	0.42	2.37
ROCE	(%)	0.00	0.00	26.05
Total Debt/Tangible Net Worth	Times	1.46	1.45	0.93
PBDIT/Interest	Times	1.35	1.33	2.46
Total Debt/PBDIT	Times	0.00	0.00	3.65
Gross Current Assets (Days)	Days	0	0	193

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Dec-2017	Cash Credit	Long Term	INR 10	SMERA BBB-
	Cash Credit	Long Term	INR 14	SMERA BBB-
	Buyers Credit	Short Term	INR 12	SMERA A3
	Buyers Credit	Short Term	INR 10	SMERA A3
13-Sep-2016	Cash Credit	Long Term	INR 10	SMERA BBB- / Stable
	Cash Credit	Long Term	INR 14	SMERA BBB- / Stable
	Buyers Credit	Short	INR 12	SMERA A3

		Term		
	Buyers Credit	Short Term	INR 10	SMERA A3
09-Jul-2015	Buyers Credit	Short Term	INR 10	SMERA A3
	Cash Credit	Long Term	INR 10	SMERA BBB- / Stable
	Cash Credit	Long Term	INR 14	SMERA BBB- / Stable
	Buyers Credit	Short Term	INR 12	SMERA A3
10-Feb-2014	Cash Credit	Long Term	INR 10	SMERA BB+ / Stable
	Cash Credit	Long Term	INR 14	SMERA BB+ / Stable
	Buyers Credit	Short Term	INR 12	SMERA A4+
	Buyers Credit	Short Term	INR 10	SMERA A4+

***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	10.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA BBB- / Stable
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A3
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A3
Proposed	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BBB- / Stable

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ABOUT SMERA

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