

Press Release

Rare Earth Conveyors Private Limited

April 27, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from **ACUITE BBB-/Stable** (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from **ACUITE A3** (read as **ACUITE A three**) on the Rs.42.00 crore bank facilities of RARE EARTH CONVEYORS PRIVATE LIMITED (RECPL). The outlook is '**Stable**'.

Delhi-Based, Rare Earth Conveyors Private Limited (RECPL) was incorporated in 2007 by Mr. Rakesh Khurana and Mr. Pankaj Khurana. The company is engaged in processing and trading of rubber conveyor belts. On July, 2011 RECPL has taken over the business of Rare Earth International (Partnership firm). Rare Earth International was established in 1990 by Mr. Rakesh Khurana and Mr. Pankaj Khurana.

Analytical Approach

ACUITE has considered the standalone business and financial risk profile of the company to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Rare Earth Conveyors 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 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.

- **Diversified and reputed customer base**

The firm caters to reputed clientele Tata Chemicals Limited, Zuari Cement Limited, JSW Steel Ltd, Birla Corporation Limited to name a few.

- **Average Financial Risk Profile**

RECPL has healthy financial risk profile marked by healthy debt to equity ratio and DSCR. Further the net worth stood moderate at Rs.39.77 crore as on 31 March, 2018 as against Rs.29.44 crore as on 31 March, 2017. The debt to equity continue to remain at healthy at 0.79 times as on 31 March, 2018 as against 1.46 times in the previous year. The total debt of Rs.31.41 crore is contributed only by short term debt as on 31 March, 2018. TOL/TNW stood at 0.94 times as on 31 March, 2018.

Weaknesses

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

RECPL has low profitability marked by operating margin of 2.92 percent and PAT (profit after tax) margin of 0.23 percent in FY2018 as against operating margin of 3.36 percent and profit margin of 0.55

percent in FY2017. 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.

Liquidity position

The company has adequate liquidity marked cash accruals of Rs.0.66 crore to Rs.0.36 crore during the last three years (FY2016-FY2018), while there was no significant maturing debt obligation for the same period. The cash accruals of the company are estimated to be more than Rs.0.65 crore during 2019 -21 while its repayment obligation are estimated to be around Rs. 0.06 Crore. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 184 in FY 2018. The cash credit limit in the company remains utilized at 90% percent during the last 6 months period ended march 2019. The group maintains cash and bank balances of Rs.0.05 crore as on March 31, 2018. The current ratio of the company stands healthy at 1.92 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of no major repayments over the medium term.

Outlook: Stable

Acuite believes that Rare Earth Conveyors Private Limited will maintain a stable business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics and timely completion of all the projects. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than- expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	140.88	138.67	136.78
EBITDA	Rs. Cr.	3.79	4.05	4.60
PAT	Rs. Cr.	0.45	0.32	0.75
EBITDA Margin	(%)	2.69	2.92	3.36
PAT Margin	(%)	0.32	0.23	0.55
ROCE	(%)	5.36	5.76	6.53
Total Debt/Tangible Net Worth	Times	0.80	0.79	1.46
PBDIT/Interest	Times	1.27	1.15	1.35
Total Debt/PBDIT	Times	8.31	7.57	9.09
Gross Current Assets (Days)	Days	193	184	177

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Application of Financial Ratios and Adjustments: <https://www.Acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument- <https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Feb-2018	Cash Credit	Long Term	INR 10	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 14	ACUITE BBB- / Stable (Reaffirmed)
	Buyers Credit	Short Term	INR 6	ACUITE A3 (Reaffirmed)
	Buyers Credit	Short Term	INR 6	ACUITE A3 (Reaffirmed)
	Proposed Long Term Loan	Long Term	INR 6	ACUITE BBB- / Stable (Assigned)
27-Dec-2017	Cash Credit	Long Term	INR 10	ACUITE BBB- (Indicative)
	Cash Credit	Long Term	INR 14	ACUITE BBB- (Indicative)
	Buyers Credit	Short Term	INR 12	ACUITE A3 (Indicative)
	Buyers Credit	Short Term	INR 10	ACUITE A3 (Indicative)
13-Sep-2016	Cash Credit	Long Term	INR 10	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 14	ACUITE BBB- / Stable (Reaffirmed)
	Buyers Credit	Short Term	INR 12	ACUITE A3 (Reaffirmed)
	Buyers Credit	Short Term	INR 10	ACUITE A3 (Reaffirmed)

*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	ACUITE BB+ / Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB+ / Stable (Downgraded)
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Withdraw)
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Withdraw)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)

Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ / Stable (Downgraded)
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Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Aditya Singh Rating Analyst - Rating Operations Tel: 011-49731314 aditya.singh@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

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