

**Raghav Productivity Enhancers Limited**

June 01, 2021

**Ratings**

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	10.00	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	Reaffirmed
Short-term Bank Facilities	1.00	<b>CARE A3+ (A Three Plus)</b>	Reaffirmed
Long-term Bank Facilities	-	-	Withdrawn**
<b>Total Facilities</b>	<b>11.00 (Rupees Eleven Crore Only)</b>		

*Details of facilities in Annexure-1*

**\*\* CARE has withdrawn the rating assigned to the term loan of Rs.0.31 crore, as the same has been repaid in full by the company and there is no amount outstanding as on date**

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Raghav Productivity Enhancers Limited (RPEL) continue to derive strength from its experienced management in the ramming mass industry, company's focus on product innovation and customized solutions, its diversified customer base, location advantage with ease of availability of raw material and labour and availability of income tax benefits. The ratings also factor in its healthy profitability, comfortable leverage, and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate scale of operations in a highly competitive and fragmented industry, along with susceptibility to foreign exchange rate fluctuation in exports, albeit with a limited credit period offered to export customers.

The ratings also take into cognisance the ongoing capacity expansion project undertaken by the company in its wholly owned subsidiary; timely implementation and subsequent stabilisation of which shall remain crucial for augmentation of its scale of operations.

**Rating Sensitivities**

**Positive Factors** - Factors that could lead to a positive rating action/upgrade:

- Significant volume driven growth in total operating income (TOI) along with sustained operating profitability (PBILDT margin) of more than 24%
- Improvement in operating cycle to less than 90 days on a sustained basis
- Significant improvement in networth along with maintenance of comfortable capital structure and debt coverage indicators

**Negative Factors** - Factors that could lead to a negative rating action/downgrade:

- Decline in TOI to lower than Rs.45 crore or decline in PBILDT margin below 15%, on a sustained basis
- Elongation in operating cycle to above 180 days with increased reliance on external borrowings to fund the working capital requirements
- Any large sized debt-funded capex resulting in deterioration in overall gearing beyond unity or moderation in debt coverage indicators

**Detailed description of the key rating drivers****Key Rating Strengths**

**Experienced and qualified management:** RPEL is promoted by Mr. Sanjay Kabra and Mr. Rajesh Kabra who have an experience of more than two decades in the iron & steel industry. Both look after the overall affairs of the company and are supported by a team of qualified and experienced managerial personnel. Further, RPEL has team of well qualified and experienced technical advisors who have expertise in quartz and induction furnaces.

**Diversified customer base with focus on product innovation and customized solutions:** RPEL provides customized induction furnace lining solutions to its clients using quartz ramming mass, which increases their productivity and reduces costs. It has a government approved research and development (R&D) lab and over the years it has invested in systems and processes along with hiring of industry-leading consultants. With this, RPEL has established itself as a productivity enhancement solution provider as against a commoditised product supplier. Owing to its focus on quality of its products, RPEL offers savings to its customers in the form of lower electricity costs, higher heat cycles and lesser patching of the furnace. This ensures multiple gains to them, outweighing the incremental pricing of RPEL's products.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Due to this, RPEL has a long-standing relationship with its customers both in domestic as well as export markets, with a pan India presence and exports to over 30 countries. RPEL's customer base is diversified, which is reflected by the top five customers contributing only around 29% of its TOI in FY21 (33% in FY20).

**Location advantage with ease of availability of raw material and labour:** RPEL's manufacturing facility is situated at Newai (Rajasthan) which is in the vicinity of quartz mines, the primary raw material of the company. Being closer to the source of raw material, RPEL has advantages such as easy availability of the raw material, low transportation and storage costs and easy access to skilled labour.

**Certified plant and income tax benefits available to the company:** RPEL's plant is ISO certified for quality and environmental management system, IQC certified for Occupational Health and Safety Management System (OHSAS), Certified European (CE) Marked Products and Green-guard Compliance Certification for low chemical emissions.

Further, the company had received the 'Energy Efficiency Award 2019' from the All India Induction Furnaces Association (AIIFA) in association with Ministry of Steel for its significant contribution towards product innovation and increasing the energy efficiency of induction furnace plants in India, alongwith a recognition as the world's largest manufacturer. IBC Research, USA, also recognized RPEL as Asia's most trusted ramming mass brand. It was also awarded the best SME 2019 award by Arracus Media and Economic Times.

Company's in-house R&D lab has approval and recognition from the Department of Scientific and Industrial Research (DSIR) and Ministry of Science and Technology, Government of India. It also receives various benefits in the income tax against its R&D expenses.

**Healthy profitability:** RPEL's profitability has remained healthy over the years, marked by PBILDT and PAT margins of 23.73% and 14.13% respectively in FY21, as against 23.45% and 14.16% respectively in FY20. This is largely on account of stable demand for its existing product as well as introduction of a value-added product by the company (ramming mass with boron oxide) having higher sales realization, during FY21.

With this, RPEL reported good cash accruals of Rs.11.27 crore during FY21 (Rs.11.62 crore in FY20).

**Comfortable solvency position:** The capital structure of the company remained comfortable, marked by 'nil' overall gearing as on March 31, 2021 as against an overall gearing of 0.16x as on March 31, 2020. This was on account of restricted utilization of the fund based working capital limits (nil at year end), repayment of all long-term debt and accretion of profit to reserves.

Further, RPEL's debt service coverage indicators remained comfortable marked by total debt to GCA of 0.01x as on March 31, 2021 (0.54x as on March 31, 2020) and PBILDT interest coverage of 25.37x in FY21 (17.34x in FY20), on account of healthy operating profitability and minimal interest costs.

#### Key Rating Weaknesses

**Moderate scale of operations:** RPEL's scale of operations has remained moderate as the company operates in a niche product segment having a relatively limited market size.

During FY21, its TOI remained largely stable at Rs.64.66 crore, compared with Rs.66.65 crore in FY20. During FY21, RPEL witnessed some decline in its sales volumes largely due to the covid-19 pandemic induced disruptions, however, the same was partially set-off by higher sales realization fetched in the value-added products.

RPEL's plant was closed from March 23, 2020 and it resumed operations from May 4, 2020.

During FY21, RPEL incorporated a subsidiary to undertake a capex for enhancing its production capacity of ramming mass by around 62%. The capex would be executed with a total cost of Rs.40 crore, to be funded by a mix of term debt, equity and internal accruals in debt-equity ratio of 1:3 and is envisaged to be completed by February 2023. During FY21, RPEL raised equity of Rs.14.02 crore, which would be primarily utilized for the funding of this capex.

Timely execution of this capex within predetermined cost parameters along with successful ramp-up of the production shall remain crucial for augmentation of RPEL's scale of operations.

**Presence in highly competitive and fragmented ramming mass industry; albeit stable demand from steel industry:** The market for RPEL's products is highly competitive with presence of both the organized and unorganized players. Moreover, the unorganized sector offers their products at relatively competitive prices. However, RPEL has been able to grow its sales and maintain its profitability over the years due to its better-quality product offering, which has also enabled it to cater to its customers on a pan India basis, alongwith export sales.

Ramming mass is used as a refractory lining material in the induction furnace, used in various industries including iron and steel industry, non-ferrous metals, glass, cement, and others. Around 70% of the ramming mass is consumed for production of iron and steel, demand for which is expected to remain stable in the near to medium term. RPEL presently supplies mainly to the steel manufacturing units and is focusing on increasing its reach to other industries as well.

**Susceptibility to fluctuation in foreign exchange rate:** RPEL is exposed to foreign exchange fluctuation risk as exports contributed around 28% of its TOI during FY21 (18% of its TOI in FY20) with no active hedging policy. However, the risk is mitigated to a large extent as majority of the export sales are against advances and for the balance export sales, RPEL offers a limited credit period of around 10-20 days to its customers.

#### **Liquidity: Adequate**

RPEL's liquidity remains adequate, marked by a moderate utilization of its fund based working capital limits, averaging at around 44% for the past twelve months ended March 2021 with nil as at year end, and absence of any long-term debt repayment obligations.

RPEL's operating cycle however remained elongated at 161 days in FY21 (134 days in FY20) with over 30% sales registered in Q4FY21 and increased raw material holding for timely execution of orders as on year end.

RPEL had not availed moratorium from March 2020 to August 2020. It had received sanction of Rs.1.00 crore of covid-19 facility from its bank, however, as informed by the management, the same was not utilised.

Company also had a free cash and bank balance of Rs.12.69 crore as on March 31, 2021, which would largely be utilised in funding of the capex of its subsidiary.

#### **Analytical Approach: Consolidated**

During FY21, RPEL incorporated a wholly owned subsidiary viz. Raghav Productivity Solutions Private Limited (RPSPL) to undertake a capex in similar line of business. Accordingly, the analytical approach has been revised from 'standalone' to 'consolidated'.

Upon completion of the capex in RPSPL, both the entities would be engaged in similar line of business i.e. manufacturing of ramming mass and related products, with a common management. RPEL would also support RPSPL towards funding its capex requirements.

*Details of entities considered in RPEL's consolidation are shown in **Annexure-3**.*

#### **Applicable Criteria**

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Criteria for Liquidity Analysis of Non-Financial Sector Entities

Rating Methodology – Consolidation

Rating Methodology - Manufacturing Companies

Financial ratios – Non-Financial Sector

CARE's policy on withdrawal of ratings

#### **About the Company**

Jaipur (Rajasthan) based RPEL was incorporated as Raghav Ramming Mass Private Limited (RRMPL) in 2009 by Mr. Rajesh Kabra along with his brother, Mr. Sanjay Kabra. Subsequently, it was converted into a public limited company in 2015. In April 2016, RPEL was listed on the Bombay Stock Exchange and in September 2017 its name was changed to the present one.

RPEL is engaged in the manufacturing of quartz based ramming mass, quartz powder and tundish board. Ramming mass is widely used in the iron & steel industry as a refractory material in lining of the inner surface of induction furnaces for melting scrap, sponge, and pig iron. Quartz powder is used in ceramic industry for manufacturing of quartz tiles.

The manufacturing facility of the company is located nearby Jaipur with an installed capacity of 1,75,000 Metric Ton Per Annum (MTPA) for manufacturing of ramming mass, 72,000 MTPA for quartz powder and 7,200 MTPA for tundish board. RPEL sells its products under the brand name of "Raghav" in domestic as well as in foreign market, majorly African and Asia Pacific countries. The company has a client base across India and exports in 34 countries world-wide.

#### **Brief consolidated financials of RPEL:**

<b>Brief Financials (Rs. Core)</b>	<b>FY20 (A)</b>	<b>FY21 (A)</b>
Total operating income	66.65	64.66
PBILDT	15.63	15.35
PAT	9.44	9.14
Overall gearing (times)	0.16	0.00
Interest coverage (times)	17.34	25.37

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	1.00	CARE A3+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable (03-Nov-20)	1)CARE BBB; Stable (06-Aug-19)	1)CARE BBB; Stable (20-Jun-18)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Nov-20)	1)CARE BBB; Stable (06-Aug-19)	1)CARE BBB; Stable (20-Jun-18)
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A3+	-	1)CARE A3+ (03-Nov-20)	1)CARE A3 (06-Aug-19)	1)CARE A3 (20-Jun-18)

**Annexure-3: List of entities consolidated in RPEL as on March 31, 2021**

Sr. No.	Name of entity	Domicile	% Shareholding of RPEL as on March 31, 2021	Primary business activity of the entity
1.	Raghav Productivity Solutions Pvt. Ltd.	India	100%	Manufacturing of quartz based ramming mass

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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