

Rasandik Engineering Industries India Limited

August 02, 2021

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|------------------------------|--|--|--|
| Long Term Bank Facilities | 75.17 (Enhanced from 74.66) | CARE BB; Stable (Double B; Outlook: Stable) | Revised from CARE BB- (Double B Minus) and removed from Credit watch with Developing Implications; Stable outlook assigned |
| Short Term Bank Facilities | 9.06 (Reduced from 11.85) | CARE A4 (A Four) | Reaffirmed and removed from Credit watch with Developing Implications |
| Total Bank Facilities | 84.23 (Rs. Eighty-Four Crore and Twenty-Three Lakhs Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long-term ratings for the bank facilities of Rasandik Engineering Industries India Limited (REIL) factors in the improvement in the profitability, cash accruals and debt coverage indicators during FY21 (refers to the period from April 01 to March 31). The ratings continue to derive strength from its experienced promoters, long-track record of operations with reputed customer base and strategic location of manufacturing units along with in-house design and engineering capabilities. These rating strengths, however, continue to remain constrained by the working capital intensive nature of operations, exposure to fluctuation in raw material prices and cyclical nature of the automotive industry. The ratings take cognizance of the decline in total operating income of the company during FY21 largely due to COVID-19 led restrictions.

The ratings have been removed from credit watch with developing implications in view of successful implementation of REIL's application for One-time restructuring (OTR) as on June 22, 2021 by the lenders. The company had submitted the application for OTR to its lenders dated September 02, 2020 under the Reserve Bank of India's (RBI) guidelines issued on August 06, 2020. The application was invoked on December 29, 2020 within the regulatory timelines. Under the restructuring, the company had availed a moratorium of 2 years and now the next repayment will start March 2022 onwards.

The stable outlook represents CARE's expectation of a moderate growth in the revenues and profitability over the near to medium term.

Rating Sensitivities

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

- Sustained improvement in the scale of operations beyond Rs.250 crores
- Sustained improvement in the PBILDT margins above 14%.
- Significant prepayment leading to reduction in repayment obligations for FY23 and a subsequent improvement in DSCR of above 1.30x

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

- Deterioration in the scale of operations below Rs.150 crores
- Deterioration in the PBILDT margins below 10%

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of operations

Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The operating cycle of the company has increased to 104 days (PY: 74 days) for FY21. The increase was largely on account of piling up of inventory due to low business volume which has led to an increase in inventory period to 134 days (PY: 87 days) as on March 31, 2021. Further, the large portion of current assets is funded through external borrowing which has resulted in low current ratio of the company of 0.71x as on March 31, 2021 (PY: 0.57x).

Exposure to fluctuation in raw material prices

The key raw material for REILL's product is steel sheets, the prices of which are volatile. The company receives orders from Maruti Suzuki India Limited (MSIL) and other OEMs regularly as per their production schedule and simultaneously REILL procures raw material from its suppliers. The increase in raw material prices can be passed on to the OEM's but with time lag (1-2 months). Hence, to that extent, the profitability remains exposed to the fluctuation in raw material prices. Furthermore, being a moderate sized player in the auto ancillary segment, REILL has limited negotiation power vis-à-vis its customers which are large and established OEMs.

Cyclical nature of the automotive industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

Key Rating Strengths

Improvement in profitability during FY21; though total operating income witnessed moderation

The total operating income of the company witnessed a decline of 33% in FY21 and stood at Rs. 139.21 crore from Rs. 208.97 crore in FY20. The moderation was largely attributable to low sales volume and disruptions in the market due to the lockdown restrictions imposed by the government in Q1FY21. REILL however, took several cost-cutting measures such as reducing staff to decrease employee expenses by 33%, merging various press shops to save on rent, travel and other expenses and decrease in selling expenses. These measures led to sustained improvement in profitability over the past 4 quarters of FY21 and the company reported PBILDT margin of 12.78% in FY21 as against 3.08% in FY20. The company also reported positive cash accruals of Rs. 5.91 crore in FY21 as against negative cash accruals in FY20.

The capital structure of the company is moderate as exhibited by an overall gearing of 0.91x (PY: 0.78x) as on March 31, 2021. Owing to the improved profitability the debt coverage indicators also improved as manifested by an interest coverage ratio of 1.79x in FY21 as against a below unity ratio in FY20.

Experienced Promoters

REILL was promoted by Mr. Rajiv Kapoor in 1986 to manufacture auto components with its first manufacturing facility in Gurgaon. Mr. Kapoor is an IIT Delhi graduate and has over three decades of experience in the auto components manufacturing system. He manages business operations largely concentrating on the product developments, new business opportunities, technology up-gradation, product quality and growth strategies. He is ably supported by Mrs. Deepika Kapoor, who looks after human relations, company management and general administration.

Strategic location of manufacturing units

REILL is engaged into manufacturing of sheet metal components like dead axles, suspension parts, skin panels, fuel tanks, motorcycle frames etc. The company has 5 operational plants at Gurgaon (2); Surajpur, Greater Noida (1); Mewat (1); Pune (1) with an installed capacity of 72000 MT for Sheet metal components and 30, 00,000 MT for Tailor Welded Blanks as on March 31, 2021. REILL has its manufacturing plants located near manufacturing facilities of OEMs to meet the latter's requirements. This helps REILL to remain competitive by combating transportation cost and continuous supply of components. The company has an integrated manufacturing plants encompassing stamping, pressing, welding (Robot Spot welding, Robot MIG welding, Nut welding etc.), and assembling, sealing and painting capabilities.

In-house design and engineering capabilities

REILL's design, engineering capability and ability to manufacture sheet metal pressed components with consistent quality and reliability is well acknowledged by OEM customers resulting in repeated orders y-o-y. Necessary

drawings or blue print are provided by the customers based on which company designs the tool. REIL is well equipped with CAD/CAM/CAE design capability, tool room and manufacturing capacities with CNC wire cutting machines, welding machines and presses for manufacturing of tool.

Long track record of operations with reputed customer base albeit customer concentration risk

REIL has a long track record of operations in auto-ancillary business since 1986. The company has an established relationship with leading OEMs. The top-5 customers of the company accounted for more than 80% of Sales during the last two financial years (FY20-FY21); thereby exposing the company towards customer concentration risk. Although, the customer base of the company is largely skewed towards automobile industry, however, the concentration risk is mitigated to an extent as the top revenue contributors of the company are well established players who enjoy strong market position in the industry.

Liquidity : Stretched

The liquidity position of the company remained stretched with low cash and bank balance and high working capital utilization levels. The working capital limits has an average utilization of around 90% for last twelve months ended June 2021. The company has a low current ratio of 0.71x as on March 31, 2021. The company is expected to have gross cash accruals of Rs. 17.55 crore against which it has repayment obligations of Rs.7.66 crore for FY22. The company has significantly high repayment obligations of Rs.24.88 crore during FY23. The company is in process of availing the ECLGS limits of ~Rs.14 crore in the near term which shall aid the liquidity position of the company going forward.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[CARE's methodology for auto ancillary companies](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[Criteria on Analytical Treatment for one-time restructuring \(OTR\) due to COVID-19 related stress](#)

About the Company

Incorporated in 1986, REIL promoted by Mr. Rajiv Kapoor is engaged in providing engineering solutions, designing and manufacturing delivery of sheet metal components and assemblies to automobile industry. The company manufactures sheet metal components, press tools and dies for high tensile application in Heavy Commercial Vehicle (HCV), Light Commercial Vehicle (LCV), Passenger Vehicle (PV), tractors and 2-wheeler industry, heavy fabrication for railways. The company has an installed capacity of 72000 MT for sheet metal components and 30,00,000 MT for Tailor Welded Blanks as on March 31, 2021.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|------------------------------|----------|----------|
| Total operating income | 208.97 | 139.21 |
| PBILDT | 6.43 | 17.80 |
| PAT | -3.32 | -5.77 |
| Overall gearing (times) | 0.78 | 0.91 |
| Interest coverage (times) | 0.57 | 1.79 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: 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 | - | - | September 2024 | 28.17 | CARE BB; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 47.00 | CARE BB; Stable |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 2.50 | CARE A4 |
| Fund-based - ST-Bank Overdraft | - | - | - | 6.56 | CARE A4 |

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* | 28.17 | CARE BB; Stable | - | 1)CARE BB- (CWD) (25-Nov-20) | 1)CARE BB+; Negative (25-Feb-20) 2)CARE BB+; Stable (04-Oct-19) | 1)CARE BB+; Stable (14-Aug-18) 2)CARE BB+; Stable (10-Aug-18) |
| 2. | Fund-based - LT-Cash Credit | LT | 47.00 | CARE BB; Stable | - | 1)CARE BB- (CWD) (25-Nov-20) | 1)CARE BB+; Negative (25-Feb-20) 2)CARE BB+; Stable (04-Oct-19) | 1)CARE BB+; Stable (14-Aug-18) 2)CARE BB+; Stable (10-Aug-18) |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 2.50 | CARE A4 | - | 1)CARE A4 (CWD) (25-Nov-20) | 1)CARE A4 (25-Feb-20) | 1)CARE A4+ (14-Aug-18) |

| | | | | | | | | |
|----|--------------------------------|----|------|---------|---|-----------------------------|---|------------------------|
| | | | | | | | 2)CARE A4+ (04-Oct-19) | 2)CARE A4+ (10-Aug-18) |
| 4. | Fund-based - ST-Bank Overdraft | ST | 6.56 | CARE A4 | - | 1)CARE A4 (CWD) (25-Nov-20) | 1)CARE A4 (25-Feb-20) 2)CARE A4+ (04-Oct-19) | 1)CARE A4+ (14-Aug-18) |

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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. | Fund-based - ST-Bank Overdraft | Simple |
| 4. | Non-fund-based - ST-Bank Guarantees | Simple |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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