Ravindra Heraeus Private Limited

March 04, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short Term Bank Facilities	150.00	**CARE A2 (A Two)**	**Assigned**
Total Facilities	**150.00 (Rs. One Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ravindra Heraeus Private Limited (RHPL) draws strength from extensive experience of promoters with established presence in precious metal products industry, strong promoter support and presence in niche product segment along with its financial profile marked by healthy albeit fluctuating profitability margins, comfortable capital structure and debt coverage indicators as well as adequate liquidity.

The rating, however, is constrained on account of fluctuating scale of its operations during the last three years ended FY20 (refers to the period from April 01 to March 31) albeit the same is expected to grow going forward, susceptibility of margins to adverse movement in precious metal prices and foreign exchange fluctuation risk, competition from international players as well as domestic players and risk related to changes in duty structure.

Rating Sensitivities

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

- Substantial growth in total operating income (TOI)
- Improvement in PBILDT margin to above 16% on sustained basis

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

- Decline in total operating income by more than 30% from envisaged levels
- PBILDT margin falling below 12% on sustained basis
- Deterioration in its overall gearing beyond 0.75 times on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters with established presence in precious metal products industry:

Mr. Shailesh Ravindra Choksi, Managing Director, is an electrical engineer by qualification having more than three decades of experience in precious metals products industry and looks after the overall operations of the company. He is ably supported by his brother Mr. Kishor R Choksi, Director, who is a Metallurgical Engineer and has around four decades of experience in the industry. Further, the directors are supported by technically qualified and experienced team of professionals in the business operations of the company. Moreover, the company benefits from demonstrated experience and expertise of its Germany based joint venture partner which is evinced by its market presence in the niche precious metal industry. The company has established presence in precious metals products industry as it has been operating since 1952 in this business.

The key products of the company can be classified under catalyst gauzes, platinum laboratory equipment, equipment's for glass making, platinum group metals solutions and salts for chemical and emission catalysts as well as jewellery. The products manufactured by RHPL finds its application in various industries such as pharmaceutical, automotive, chemical, fertilizer, glass and other special industrial requirements. As products manufactured by the company finds its uses across different industries thus mitigating the risk of downturn in single industry. Additionally, the top ten customers constituted around 41% of its total sales in FY20 as against 59% in FY19 with its top customer constituting around 18% of its total sales in FY20 and 15% in H1FY21 as against 26% in FY19, depicting moderate customer concentration.

Strong promoter support and presence in niche product segment:

In 1994, the company entered into joint-venture with W.C. Heraues International GMBH which is under the umbrella of the renowned group 'Heraues Holding GmbH'.

RHPL being in a special business line with niche product has a competitive advantage in sector as only limited companies are in the similar line of business. Further, the company is having technological advancement, being supported by the 'Heraeus group' which provides with the latest technologies to RHPL. The company gets German technology which adds on to the overall advantage of the company. RHPL also gets support from 'Heraeus group' by way of procurement of part of its raw

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

material requirements from other subsidiaries of 'Heraeus group'. Further, Heraeus group has also extended working capital loan to RHPL to fund its working capital requirements at nominal interest rate where principal amount is repayable after 5 years from the date of borrowing. Unsecured loan from its joint venture partner i.e. W.C. Heraeus International GmbH stood at Rs.83.05 crore as on March 31, 2020 (Rs.38.85 crore as on March 31, 2019).

Healthy albeit fluctuating profitability margins:
Profitability margins of the company have exhibited fluctuating trend during the last three financial years (FY18-20). During FY20, PBILDT margin of the company increased by around 975 bps to 16.25% mainly on account of lower cost of raw material consumed. The company, in FY19, had expanded its precious metals recycling capacity by setting up pyrometallurgical smelter (Plasma Metal Recovery System) with a capacity of about 1,500 tonnes per year of auto catalysts and equivalent that allows it to recycle Platinum Group Metals from the spent precious metal catalyst and is used as its raw material which has also aided improvement in its operating margins in FY20. With increase in operating profit margin, PAT margin also increased by around 771 bps to 11.62% in FY20, although proportionately lower than increase in PBILDT margin owing to higher depreciation as well as interest expenses. Overall, its GCA level increased by around 138% to Rs.65.03 crore in FY20 (Rs.27.29 crore in FY19). Additionally, during H1FY21, the company has reported PBILDT and PBT level of around Rs.36.07 crore and Rs.33.51 crore respectively on TOI of Rs.229.22 crore.

Comfortable capital structure and debt coverage indicators:
Owing to its high net worth base of Rs.224.18 crore backed by healthy accretion of profit to reserve, its capital structure stood comfortable at 0.37 times as on March 31, 2020, although deteriorated from 0.23 times as on March 31, 2019 on account of availing of unsecured loan to the tune of Rs.44.20 crore from its joint venture partner i.e. W.C. Heraeus International GmbH for meeting its working capital requirements. The total debt of the company as on March 31, 2020, only consists of the said unsecured loans amounting to Rs.83.05 crore.
The debt coverage indicators of the company also stood comfortable with total debt to GCA of 1.28 times as on March 31, 2020, improved from 1.42 times as on March 31, 2019 mainly on account of higher proportionate increase in its GCA level vis-à-vis total debt. Further, owing to higher proportionate increase in PBILDT vis-à-vis interest expenses, its interest coverage ratio also improved to 69.38 times in FY20 as against 41.24 times in FY19.
Moreover, its PBILDT interest coverage ratio moderated albeit stood comfortable at 48.16 times in H1FY21.
Moreover, the company has envisaged replacement/up gradation of its existing plant and machinery in FY21 and FY22 with total outflow of around Rs.40 crore which is expected to be funded through internal accruals. Although upto December 23, 2020, the company has not incurred any expenditure towards the said capex.

Liquidity position-Adequate:
The liquidity of the company stood adequate marked by NIL working capital limit utilization during last 12 months period ended November, 2020 with free cash and bank balance and unencumbered fixed deposit of Rs.140.85 crore as on March 31, 2020 (Rs.46.70 crore as on March 31, 2019). RHPL mainly uses non-fund based limits in the form of bank guarantee which are issued in favor of companies for which it undertakes job work due to high value precious metal contents. The average utilization of its non-fund based limits stood around 71% during last 12 months ended November, 2020. Further, operating cycle of the company elongated and stood at 97 days in FY20; increased from 64 days in FY19 owing to increase in average raw material inventory period with decline in its scale of operations.
Further, its current ratio and quick ratio stood at 4.92 times and 3.63 times respectively as on March 31, 2020. Additionally, the company expects healthy cash accruals over the next 3 years (FY21-23) with debt repayment only being the unsecured loan amounting to Rs.41.52 crore which will be due for repayment in FY23 as per terms of borrowings. Additionally, its cash flow from operating activities increased to Rs.58.79 crore in FY20 as against negative Rs.1.33 crore in FY19 due to increase in profitability level and decrease in working capital gap.

Key Rating Weaknesses
Fluctuating scale of operations albeit the same is expected to grow going forward:
Total operating income has shown fluctuating trend in the last 3 years. During FY20, TOI of the company declined by 14% to Rs.530.72 crore on y-o-y basis on account of lower sales of its products profile which as articulated by management was due to loss of sales of one of its top clientele which used to contribute significant portion to its revenue. Further, the temporary stoppage of the operations in the current year due to lockdown has impacted the business and financial risk profile of the company to some extent during the current fiscal, which is evinced by lower TOI of Rs.229.22 crore reported during H1FY21. However, the performance has gradually picked up from Q3FY21 backed by demand from chemical & automotive players, as evinced by gross sales of Rs.740 crore reported by the company during 10MFY21.

Impact of COVID-19:
Due to Covid-19 pandemic RHPL had to shut down its operations at its unit in March, 2020 following announcement of lockdown announced by Govt. to contain the spread of Covid-19 pandemic. The operations remained halted for 38 days from

March 23, 2020, thereby impacting its scale of operations during H1FY21. Although, as per the management the performance has gradually picked up from Q3FY21 backed by demand from chemical & automotive players and it expects to report increase in scale of operations in FY21 on y-o-y basis. Further, as articulated by management the company is not facing issues with respect to labor shortage, raw-material procurement/logistics services. Moreover, the company has not availed moratorium granted by the lenders as a COVID relief measure (as permitted by the Reserve Bank of India) for its debt obligations.

Exposed to volatility in precious metal prices and foreign exchange fluctuation risk:
The primary raw materials of RHPL are platinum, palladium and Rhodium which altogether constituted around 96% of total raw material consumed cost during FY20 (98% during FY19). All three raw materials by virtue of being a global commodity have shown a volatile price trend over the years. Further, other raw material includes silver, gold, ruthenium powder, iridium, cobalt, cooper and nickel also have shown a volatile price trend over the years. The company procures its key raw material majorly through imports which constituted around 59% of its raw material consumed cost during FY20 (75% during FY19) while rest were procured from domestic players at market linked rates. The entire production is based on confirmed order from its clientele and in order to mitigate the risk of price volatility, RHPL follows back to back raw material procurement which is linked as per delivery schedule of order and London Metal Exchange (LME) prices. However, the company is exposed to volatility in prices of the base raw material which it maintains and the same may impact its profitability. Additionally, the company is exposed to foreign exchange fluctuation risk as it does not follow active hedging policy. Further, the company is exposed to foreign exchange fluctuation risk pertaining to borrowings from joint venture partner which are in foreign currency.

Competition from international players and limited domestic players as well as risk related to any change in duty structure:
Due to niche product segment, there are limited domestic competitors though the company faces competition from international players which have established global presence. Further, the company is also susceptible to any change in duty structure on raw materials by government which may impact demand of its product profile. However, the Govt. of India in the Budget for 2020-21, had reduced import duty on precious metals including platinum, which is the key raw material of the company, from 12.50% to 7.50% which has made its products competitive in the market while the finished product attracts custom duty of around 11%.

Industry outlook
Platinum metal is widely used in the automotive industry owing to rising environmental regulations on carbon emission as its reduces atmospheric emissions and other pollutants. The product demand is increasing from the automotive industry across the globe supported by expanding automotive industry in the developing economies such as India, China, and Brazil. Further, with respect to pharma sector, the same has been used to increase the sustainability of the pharma industry's chemical processes.
The company supplies its product profile to wide range of industries namely pharmaceutical, automotive, chemical, fertilizer, glass, and jewellery among others with pharmaceutical and automotive segments contributing majority to its total revenue as articulated by the management.
CARE's outlook with respect to pharmaceutical sector- For the year FY21, the overall Indian pharma industry is expected to increase in the range of 9%-10% backed by an estimated domestic growth of about 7% and around 12%-13% rise in pharma exports. The operations of healthcare industry are estimated to return to normal levels only from Q3FY21 onwards which is expected to augur well for the Indian pharma industry as it will result in higher prescription of medicines from hospitals, clinics, OPD centres, local clinics and doctors. In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Moreover, the demand for Indian drugs in the international market will be supported by new product launches thereby aiding the Indian pharma exports. Thus, the demand for drugs is expected to remain steady to a large extent. However, the industry is likely to face delay in product launches and clinical trials given the current scenario. Besides, Covid-19 has also led to deferment of physical inspections by the USFDA which has delayed in commencement of the pharma units and also launch of products.
CARE's outlook with respect to automotive sector- Since the onset of slowdown in third quarter of FY19, the total domestic automobile sales have been declining since October 2018. The ongoing pandemic added to the woes of the players, as domestic sales were near nil in April 2020 due to the nation-wide lockdown. However, the numbers improved every successive month and have shown an impressive recovery since then. The need for personal mobility (at least in the short term) in light of Covid-19 pandemic, together with constrained earnings has led to a surge in demand for second hand cars, which potentially has also dented the demand for new vehicles in FY21. Though the automotive sector has shown a good recovery on a sequential basis, achieving full demand recovery is not expected until at least FY22. The tractors, passenger vehicles and 2-wheeler segments are expected to well in FY21, while recovery in commercial vehicles and 3-wheelers will be slower.

The automotive sector has been allocated the highest amount of Rs. 57,000 crores in the recently announced PLI scheme (production-linked incentive). This scheme is in the right direction of enabling the Indian automotive sector to emerge as a major exporter of vehicles and components, along with reducing component imports. Incentives given to other sectors like electronics, specialised steel, etc. will also create a conducive ecosystem for the Indian automotive sector.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Manufacturing companies
Rating Methodology – Non Ferrous Metal
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
RHPL was initially incorporated in 1988 as Jaipur Ravindra Platinum Private Limited by Late Mr. Ravindra S Choksi along with his family members. Later in 1994, the company entered into joint-venture with world renowned German technology group "Heraeus" one of the leading player in industrial precious and special metals business. Subsequently in 1995 the name of the company was changed to its present name, however, in 1996 the constitution of the company was changed to public limited which was later again converted to private limited in 2002. RHPL is primarily engaged in manufacturing of precious and specialty metal products and solutions. The company refines various precious and semi-precious metals such as platinum, palladium, rhodium, silver & gold which find its application in wide range of industries namely pharmaceutical, automotive, chemical, fertilizer, glass, and jewellery among others. Further, the company also provides job work services for recovering/recycling of precious metal content from spent metal catalyst. The manufacturing facility of RHPL is situated at Udaipur (Rajasthan) having installed capacity of 27,000 Kg for manufacturing of precious metal products and 61,500 kg for manufacturing of precious metal solutions & catalyst as on March 31, 2020. Further, the company also exports its products although on a very small scale. RHPL's manufacturing facility is ISO 9001:2015 certified which denotes quality management system as well as ISO 14001:2015 certified which denotes environmental management system.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	618.44	530.72
PBILDT	40.21	86.24
PAT	24.13	61.64
Overall gearing (times)	0.23	0.37
Interest coverage (times)	41.24	69.38

A: Audited
As per the provisional financials for H1FY21, the company has reported PBT of Rs.33.51 crore on TOI of Rs.229.22 crore.
Status of non-cooperation with previous CRA: None

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
Non-fund-based - ST-Bank Guarantees	-	-	-	150.00	CARE A2

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	150.00	CARE A2	-	-	-	-

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.	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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