Rajoo Engineers Limited

December 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	22.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Assigned
Total bank facilities	**22.00 (₹ Twenty-two crore only)**		

Details of facilities in Annexure -1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Rajoo Engineers Limited (REL) derive strength from its established track record of operations in the plastic machinery industry having wide product offering, diversified geographical presence and vast experience of its promoters with professional management team. The ratings also factor in its comfortable solvency position marked by net debt free position, comfortable debt coverage indicators, healthy profitability and adequate liquidity.
The ratings, however, are constrained by its moderate scale and working capital-intensive nature of operations, susceptibility of profitability to fluctuations in raw material prices and foreign exchange rates, vulnerability to the inherent cyclicality in demand from the end-user plastic industry, technology obsolescence risk and presence in competitive industry.

Rating sensitivities

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

- Significant increase in scale of operations with diversification of product portfolio.
- Improvement in PBILDT margin above 15% on sustained basis.
- Improvement in operating cycle below 90 days.

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

- Deterioration in the capital structure as marked by overall gearing ratio of above 1.00x on sustained basis.
- Elongation in operating cycle beyond 180 days.
- Decline in scale of operations by more than 25% from the FY22 level on sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Experienced and qualified management:

Rajesh N. Doshi, Co-founder and Chairman of the company holds more than two decades of experience and looks after new product development and mentoring top management team of the company. Khushboo Doshi, Managing Director, oversees marketing, after-sales service, communication, human resources and finance. Utsav Doshi, Jt. Managing Director possess more than one decade of experience and handles manufacturing function. Sunil Jain, Executive Director, BE Honors (Mechanical, BITS Pilani) is associated with REL since its inception and handles business development function. Furthermore, REL has well-qualified and experienced second-tier management with well-defined roles and responsibilities.

Established track record of operations with diversified geographical presence:

Started in 1986 as a manufacturer of plastic extrusion machines, REL has a long operational track record for more than three and a half decades in this industry. With its long track record, it has established presence in the industry and has developed good relationship with its customers as well as suppliers. It has wide product basket which includes monolayer machines, multi-layer machines, lamination lines, vacuum forming and sheet manufacturing machines among others. Furthermore, revenue profile of REL is geographically diversified marked by export sales forming around 50% of total operating income (TOI) in the last five years ended in FY22. REL exports to more than 40 countries with major focus on Africa, Gulf and South Asian Association for Regional Cooperation (SAARC) region. In case of export sales, REL prefers sale against advance payment or letter of credit. Moreover, the customer base of the company remains diversified marked by the top 10 customers accounting for around 32% of its TOI in FY22 (around 30% in FY21). Being in the capital goods industry, its top customer base keeps on changing based on capex plans at the customers' end.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy profitability:
REL commands healthy profitability owing to technical nature of its operations coupled with its placement in niche industry segment. REL's PBILDT margin remained healthy in range of 11%-14% in past and it had reported PBILDT margin of 12.83% in FY22. With low dependence on debt and the resultant negligible interest cost, the PAT margin also remained healthy at 8.59% in FY22. In H1FY23 (UA) PBILDT and PAT margin remained relatively stable at 11.10% and 5.75% respectively. CARE Ratings Limited (CARE Ratings) expects profitability to remain stable in the medium term on the back of steady growth in scale of operations, absence of any major capital expenditure and minimal debt levels.

Comfortable solvency position with net debt free position and comfortable debt coverage indicators:
REL has a comfortable solvency position on account of healthy year-on-year profit accretion into tangible net worth coupled with low reliance on debt for working capital and capex purpose. The company has negligible debt as on balance sheet date and has remained a net debt free entity over the last two years ended March 31, 2022. The tangible net worth base remained moderate at ₹92.56 crore as on March 31, 2022 [PY: ₹77.09 crore]. TOL/TNW of the company also remained at comfortable level of 0.58 times as on March 31, 2022 and 0.78 times as on September 30, 2022. Going forward with no major capex plans, the capital structure is expected to remain comfortable.
The debt coverage indicators of the company improved with improved profitability as against decrease in debt levels and remained comfortable as marked by interest coverage ratio of 69.55 times [PY: 19.15 times] and total debt to GCA of 0.02 times [PY: 0.22 times] for the year ended on March 31, 2022. Furthermore, the interest coverage continued to remain comfortable at 53.82 times [PY: 38.52 times] during H1FY23 (UA).

Key rating weaknesses
Moderate scale of operations and high working capital intensity:
REL is engaged into manufacturing of extrusion machines i.e. capital goods segment, hence, exhibiting fluctuation in its TOI with Q-o-Q variation in order receipt and execution. In FY22, REL's TOI grew by around 14% Y-o-Y and remained moderate at ₹172.81 crore compared to ₹152.25 crore in FY21 owing to increase in the post-COVID-19 demand of its machines from the plastic industry with increase in demand of packaging material. In H1FY23, it reported TOI of ₹53.35 crore (₹70.81 crore during H1FY22) while its order book stood moderate at ₹103.59 crore as on October 20, 2022 with order execution period of 6-12 months.
The operations of REL are working capital intensive in nature mainly due to high inventory requirement to maintain smooth operations as the lead time of machine manufacturing is six to seven months. Also, machine delivery to client is dependent on client offtake. The collection period of PRPL remains short and in the range of 20-30 days as it mainly deals against advance payment/LC. It receives credit period of around 60-90 days from its suppliers. In FY22, the operating cycle of the company remain elongated at 106 days (PY: 126 days). Despite of the elongated operating cycle, fund-based working capital borrowing remained negligible as working capital requirement of the company is being met through customer advances and internal accruals.

Vulnerability to inherent cyclicality in demand from end-user plastic industry, technology obsolescence risk and presence in competitive industry:
REL's customers are mainly from the plastic and addition of new facilities or expansion of the existing facilities by plastic players dependent on the consumer demand and the country's economic condition. REL's fortunes are thus tied to the capital expenditure cycle in the plastic industry.
Plastic extrusion machinery segment is highly competitive characterised by presence of large established players along with competition from overseas players with established brand names. Therefore, REL is exposed to competition from domestic as well as foreign extrusion machine manufacturers. Moreover, REL operates into technology-intensive segment and timely updation to newly emerging technology is inevitable, hence, there is inherent technology obsolescence risk associated with its competitive position in the market.

Susceptibility of profitability to fluctuations in raw material prices and foreign exchange rates:
The key raw materials required in manufacturing of machines are stainless steel (SS), mild steel (MS) and SS/MS parts, which REL procures from the domestic market whereas it imports the automation parts (i.e. control panel etc.). The steel prices are highly volatile in nature exposing its profitability to fluctuation in the raw material prices. However, the same is partially mitigated as REL has order-backed manufacturing and it books major raw material post receipt of orders.
REL generates around 50% revenue through exports and procures around 15-25% raw materials which resulted into average of 30% natural hedge in the last five years ended in FY22. This makes REL's profitability susceptible to adverse foreign exchange rate fluctuations in absence of active hedging policy. The company has registered forex gain of ₹0.60 crore in FY22 as against ₹0.75 crore in FY21.

Liquidity: Adequate

REL's liquidity position remained adequate marked by healthy cash flow from operations (CFO), unencumbered investments in liquid funds, negligible utilisation of working capital limits and adequate cash accruals.
The company is expected to generate cash accruals of ₹15-20 crore as against low term debt repayment in the near term. The current ratio of the company remained at comfortable level of 1.98 times as on March 31, 2022, which improved from 1.60 times as on March 31, 2021 mainly due to decrease in creditors and customer advances as on March 31, 2022. The company has cash and bank balance of ₹23.66 crore while liquid investment in mutual funds remained at ₹10.82 crore as on March 31, 2022. CFO of the company increased over the previous year and remained healthy at ₹19.68 crore in FY22 [PY: ₹15.80 crore] mainly on account of better realisation from debtors in the year ended on March 31, 2022.

Analytical approach: Standalone

Applicable criteria:

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)

About the company

Incorporated in 1986 by C.N. Doshi and R.N. Doshi, REL (CIN: L27100GJ1986PLC009212) is engaged in manufacturing of plastic extrusion machinery. The company in-house designs various type of extrusion machinery and offers customised solutions to customers as per their specific needs. REL sells its products in domestic market as well as exports to more than 40 countries. REL sells its products under the brand names of 'Rajoo' and operates through its sole manufacturing facility at Shapar, Rajkot (Gujarat) with a built-up area of 20,000 sq. mtrs.
In 2011, REL has entered into a joint venture (JV) with Italy-based Bausano & Figli SPA (B&F) and formed a JV entity named Rajoo Bausano Extrusions Private Limited (RBEPL) to manufacture Polyvinyl chloride (PVC) pipe extrusion machinery as well as wooden plastic composite (WPC) profile and board lines. The Doshi family has also set up associate concern named Essen Speciality Films Private Limited (ESFPL; Rated: CARE BBB+; Stable / CARE A2) which is engaged into manufacturing of ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE) based articles for various application in bathroom, kitchen & dining, home décor etc.

Brief Financials (in ₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	152.25	172.81	53.35
PBILDT	18.74	22.18	5.92
PAT	10.50	14.85	4.11
Overall gearing (times)	0.04	0.00	0.00
PBILDT Interest coverage (times)	19.15	69.55	11.10

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

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

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash credit	-	-	-	-	22.00	CARE A-; Stable / 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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Cash credit	LT/ST*	22.00	CARE A-; Stable / CARE A2+				

* Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation
A. Financial covenants	**REL to maintain followings:** **Covenant** — **Threshold** Current Ratio — >=1.33 TOL/TNW — <=3
B. Non-financial covenants	None

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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