

Raghav Productivity Enhancers Limited

August 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable (Triple B; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3+ (A Three Plus) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3+' [Triple B; Outlook: Stable/ A Three Plus] assigned to the bank facilities of Raghav Productivity Enhancers Limited with immediate effect. The above action has been taken at the request of Raghav Productivity Enhancers Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

The ratings, prior to the withdrawal, take into account 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.

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. 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. The PBILDT and PAT margins are 30.02% and 20.36% in Q1FY22 as against 15.75% and 6.35% respectively in Q1FY21. 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) and Rs. 4.84 crore in Q1FY22 (Rs. 1.1 crore in Q1FY21).

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. TOI improved to ~Rs.21 cr in Q1FY22 as against TOI of ~Rs.9 cr in Q1FY21.

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. 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

[Policy on Withdrawal of Ratings](#)

[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](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios - Non- Financial Sector](#)

[Rating Methodology: Consolidation](#)

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:

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total Operating Income	66.65	64.66
PBILDIT	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

During Q1FY22 (UA), as per the published results, RPEL reported a net profit of Rs 4.28 crore on total operating income (TOI) of Rs.21.02 crore as against net profit of Rs.0.58 crore on a TOI of Rs 9.14 crore during Q1FY21 (UA).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn

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)Withdrawn (01-Jun-21)	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	-	-	1)CARE BBB; Stable (01-Jun-21)	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)CARE A3+ (01-Jun-21)	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.	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. 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 nearly 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.

Disclaimer

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