

## Rajoo Engineers Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	22.00	CARE A-; Stable / CARE A2+	Reaffirmed

Details of facilities in Annexure -1

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Rajoo Engineers Limited (REL) continue to 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, healthy profitability as well as debt coverage indicators, and adequate liquidity.

The ratings, however, continue to be constrained by REL's moderate scale and working capital-intensive nature of operations, susceptibility of profitability to fluctuation 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: Factors likely to lead to rating actions

#### Positive factors:

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

#### Negative factors:

- Decline in scale of operations with total operating income (TOI) less than Rs.130 crore on sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 1.00x on sustained basis.
- Elongation in operating cycle beyond 180 days.

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity shall continue to benefit from its established presence and brand name in the industry accompanied by wide product offerings along with experienced promoters which shall enable the company to sustain its comfortable financial risk profile over the medium term.

### Detailed description of the key rating drivers

#### Key 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 possesses more than one decade of experience and handles manufacturing function. Sunil Jain, Executive Director, BE Honors (Mechanical, BITS Pilani) has been 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

Incorporated in 1986 as a manufacturer of plastic extrusion machines, REL has a long operational track record of 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 a 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 40% of its TOI in the last five years ended FY23. 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 remained diversified with top 10 customers accounting for around 36% of its TOI in FY23 (around 34% in FY22). Being

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

in the capital goods industry, its top customer base keeps on changing based on capex plans at the customers' end.

### **Healthy profitability**

REL commands healthy profitability owing to technical nature of its operations coupled with its presence in niche segment. Profitability of the company as marked by its PBILDT margin moderated by 393 bps Y-o-Y and remained at 8.90% in FY23 as against 12.83% in FY22 owing to raw material price volatility. Subsequently, PAT margin of the company also moderated by 233 bps Y-o-Y to 6.26% in FY23. However, in H1FY24, PBILDT margin, and subsequently, PAT margin increased by 297 bps and 316 bps y-o-y and remained healthy at 14.06% and 8.92% respectively [H1FY23: 11.10% and 5.75% respectively] with stabilization of raw material prices and better absorption of overheads.

### **Comfortable solvency with net debt free position and comfortable debt coverage indicators**

REL had a comfortable solvency position on account of low reliance on debt for working capital and capex purpose. The company had negligible outstanding debt as on March 31, 2023, and remained a net debt free entity over last couple of years. Net worth base remained moderate at Rs.101.43 crore as on March 31, 2023 [PY: 92.56 crore]. TOL/TNW of the company also remained at comfortable level of 0.67 times as on March 31, 2023 and 0.95 times as on September 30, 2023. With minimal reliance on debt, debt coverage indicators of the company continued to remain comfortable as marked by PBILDT interest coverage of 43.66 times [H1FY24: 53.13 times] and total debt to GCA of 0.14 times [H1FY24: 0.13 times] in FY23.

Furthermore, REL has acquired adjoining two plots of land for expansion of assembly line to support scaling up of REL's operations. Total estimated capex is around Rs.14-15 crore including land and building cost and the same shall be entirely funded through liquidity available with the company. Considering demand driven small size of expansion capex, project risk appears to be low.

### **Key weaknesses**

#### **Moderate scale of operations and high working capital intensity**

REL is engaged in manufacturing of extrusion machines i.e. capital goods segment, hence, exhibits fluctuating trend in its TOI with Q-o-Q variation in machine order and execution. In FY23, REL's TOI remained largely stable at Rs.160.04 crore compared to Rs.172.81 crore in FY22. On other hand, TOI grew significantly by ~63% Y-o-Y to Rs.86.89 crore in H1FY24 [H1FY23: Rs.53.35 crore] on the back of substantial increase in demand in current year. Moreover, the outstanding order book increased significantly from Rs.103.59 crore as on October 20, 2022, to Rs.202.78 crore as on November 08, 2023, with order execution period of 6-12 months; providing good revenue visibility.

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. The collection period of REL remained short in the range of 20-30 days as it mainly deals against advance payment/LC. Against this, it receives credit period of around 60-90 days from its suppliers. In FY23, the operating cycle of the company continued to remain elongated at 119 days (FY22: 106 days; FY21: 126 days) mainly due to inventory holding period of 144 days. Despite an 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. The customer advances stood at Rs.39.39 Crore as on March 31, 2023, as compared to Rs.23.22 crore as on March 31, 2022.

#### **Vulnerability to inherent cyclicality in demand from end-user industry, technology obsolescence risk and presence in competitive industry**

REL's customers are mainly from the plastic packaging industry and addition of new facilities or expansion of the existing facilities by these players is 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 characterized 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 in a 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.). Steel prices are volatile in nature exposing the profitability to fluctuation in 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 40% revenue through exports and procures around 15-25% raw materials which provides natural hedge to some extent. For balance unhedged portion, in absence of any active hedging policy, REL's profitability is susceptible to adverse

foreign exchange rate fluctuations. The company registered forex gain of Rs.0.26 crore in FY23 as against Rs.0.60 crore in FY22.

**Liquidity:** Adequate

REL's liquidity was adequate marked by healthy cash flow from operations (CFO) and unencumbered cash and bank balance coupled with negligible utilization of working capital limit as well as moderate cash accruals against no o/s long term debt as on Sept. 30, 2023.

The company had liquid funds of Rs.55.89 crore as on September 30, 2023 including unencumbered cash and bank balance of Rs.44.37 crore and liquid investments of Rs.11.52 crore. CFO of the company decreased over the previous year owing to lower profitability, though continued to remain healthy at Rs.15.83 crore in FY23 as against Rs.19.68 crore in FY22.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

**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](#)

[Policy on Withdrawal of Ratings](#)

**About the company and industry**

**Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

**About the company**

Incorporated in 1986 by C.N. Doshi and R.N. Doshi, REL (CIN: L27100GJ1986PLC009212) is engaged in the manufacturing of plastic extrusion machinery. The company designs in-house various type of extrusion machinery and offers customized solutions to customers as per their specific needs. REL sells its products in the domestic market as well as exports to more than 40 countries. REL sells its products under the brand name '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 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 Limited (ESFL; 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 (Rs. crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	172.81	160.04	86.89
PBILDT	22.18	14.25	12.22
PAT	14.85	10.02	7.75
Overall gearing (times)	0.00	0.02	0.02
Interest coverage (times)	69.55	43.66	53.13

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**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 for the 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 2023-2024	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
1	Fund-based - LT/ST-Cash Credit	LT/ST*	22.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Dec-22)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated facilities:** Not Applicable**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**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](http://www.careedge.in). Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

## Contact us

<p><b>Media Contact</b></p> <p>Name: Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Name: Kalpesh Patel Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5611 E-mail: <a href="mailto:Kalpesh.patel@careedge.in">Kalpesh.patel@careedge.in</a></p> <p>Name: Anuja Parikh Assistant Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5616 E-mail: <a href="mailto:anuja.parikh@careedge.in">anuja.parikh@careedge.in</a></p> <p>Name: Harsh Desai Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:harsh.desai@careedge.in">harsh.desai@careedge.in</a></p>
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