Rajoo Engineers Limited

January 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.00	CARE A-; Stable	Assigned
Long Term / Short Term Bank Facilities	32.00 (Enhanced from 22.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Short Term Bank Facilities	15.00	CARE A2+	Assigned

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 presence in the plastic extrusion machinery industry marked by track record of more than three and a half decades, wide product offering, diversified geographical presence and experienced promoters. The ratings also factor in the company's healthy profitability, comfortable solvency position marked by net debt-free position, comfortable 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 inherent cyclicality in demand from end-user plastic industry, technology obsolescence risk and presence in a competitive engineering capital goods 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 profit before interest, lease rentals, depreciation and taxation (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 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 vast 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 machinery, 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.

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

Furthermore, revenue profile of REL is geographically diversified marked by export sales forming ~48% of its TOI in the last five years ended FY 24. 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 ~35% of its TOI in FY24 [~36% in FY23]. Being 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 placement in niche industry segment. Operating profit of the company as marked by its PBILDT margin improved in FY24 as well as in H1FY25 as the company benefited from higher order execution translating into better economies of scale coupled with better product mix as well as increasing export sales proportion.

REL's PBILDT margin, and subsequently, PAT margin improved by 474 bps and 371 bps Y-o-Y respectively and remained at 13.64% and 9.97% respectively in FY24 [PY: 8.90% and 6.26% respectively]. In H1FY25, PBILDT margin and PAT margin improved by 295 bps and 250 bps Y-o-Y respectively to 17.02% and 11.42% respectively [H1FY24: 14.06% and 8.92% respectively].

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

REL's capital structure remained comfortable owing to its low reliance on debt for working capital and capex purposes against moderate net worth base of Rs.119 crore as on March 31, 2024. Moreover, REL had liquid funds available in excess of total outstanding debt, resulting in net debt free position over last five years ended FY24. TOL/TNW also remained at comfortable level of 0.82x as on March 31, 2024 [1.22x as on September 30, 2024 due to high customer advances].

With minimal reliance on debt, debt coverage indicators of the company remained comfortable marked by PBILDT interest coverage ratio of 41x [H1FY25: 60x] and total debt to gross cash accruals (TD/GCA) of 0.07x [H1FY25: 0.01x] in FY24.

REL has extended its assembling facility on recently purchased adjacent plot which led to almost doubling of its assembling capacity from Q1FY25 onwards which enhances its revenue generation capability up to Rs.300-350 crore per annum. The entire capex was funded from internal accruals. The company is planning on undertaking another capex for adding plant & machineries worth Rs.30 crore in Q4FY25 which is proposed to be funded through term loan of Rs.20 crore and balance through internal accruals. The said expansion is in anticipation of consistent increase in order book.

Despite the said capex, CARE Ratings expects REL's capital structure and debt coverage indicators to remain comfortable.

Key weaknesses

Moderate scale of operations with high working capital intensity

REL is engaged in manufacturing of plastic extrusion machines i.e. capital goods segment, hence, exhibits fluctuating trend in its TOI with Q-o-Q variation in receipt of order and execution. REL's TOI grew by 23% Y-o-Y to Rs.198 crore in FY24 [PY: Rs.160 crore] on the back of availability and execution of more orders and consequently, its TOI grew by 27% Y-o-Y to Rs.110 crore in H1FY25 [PY: Rs.87 crore]. Moreover, the outstanding order book increased from Rs.203 crore as on November 08, 2023 to Rs.244 crore as on December 17, 2024 with order execution period of 6-12 months; providing good revenue visibility.

The company's operations are working capital intensive in nature mainly due to requirement of high inventory holding to cater to various products. Lead time of machines is six to seven months resulting in inventory holding period of around 140-180 days. Furthermore, machine delivery is linked to the project status at client site and hence till then, same would be under work in process (WIP) of REL. The collection period remained short and in the range of 20-30 days as it mainly takes orders against advance payment/Sight letter of credit (LC). Against this, REL receives credit period of around 45-90 days from its suppliers. The operating cycle elongated from 119 days in FY23 to 157 days in FY24 mainly on account of increase in inventory holding period from 144 days in FY23 to 179 days in FY24. Despite high working capital intensity, working capital borrowings remained low as it is largely funded through customer advances and internal accruals.

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 the addition of new facilities or expansion of the existing facilities by these players is dependent on 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. Moreover, REL operates in a technology-intensive segment and timely updation to emerging technology becomes inevitable, hence, there is inherent technology obsolescence risk associated with this industry.

Susceptibility of profitability to fluctuation in raw material prices and foreign exchange rate

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 imports around 15-25% of its raw material 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 has registered forex gain of Rs.0.60 crore in FY24 as against Rs.0.10 crore in FY23.

Liquidity: Adequate

REL's liquidity was adequate marked by sizable liquid funds coupled with low utilization of working capital limit as well as moderate cash accruals as against low scheduled debt repayment obligations.

The company holds liquid funds to the tune of Rs.34 crore as on March 31, 2024 which increased to Rs.96 crore as on September 30, 2024 supported by receipt of customer advances. Cash flow from operations (CFO) decreased over the previous year and remained negative at Rs.7 crore in FY24 owing to significant increase in inventory level as on March 31, 2024. REL has generated net cash accruals of Rs.21 crore in FY24 [Rs.15 crore in H1FY25] and expected to generate Rs.24-29 crore in FY25-FY27 period as against scheduled debt repayment obligations of Rs.0.08-4.5 crore during same period. Average utilization of fund-based working capital facilities remained low at less than 1% in trailing six months ended in September 2024.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

[Definition of Default]

[Liquidity Analysis of Non-financial sector entities]

[Rating Outlook and Rating Watch]

[Manufacturing Companies]

[Financial Ratios – Non financial Sector]

[Short Term Instruments]

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 extrusion machinery and offers customized solutions as per customers' 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 applications in bathroom, kitchen & dining, home décor etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	160.04	197.63	110.18
PBILDT	14.25	26.96	18.75
PAT	10.02	19.71	12.58
Overall gearing (times)	0.02	0.01	0.00
Interest coverage (times)	43.66	40.56	60.48

A: Audited; UA: Unaudited; NA: Not available. Note: these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31/03/2030	20.00	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	32.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	-	15.00	CARE A2+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ ST-Cash Credit	LT/ST	32.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (02-Jan-24)	1)CARE A-; Stable / CARE A2+ (06-Dec-22)	-
2	Fund-based - LT-Term Loan	LT	20.00	CARE A-; Stable				
3	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2+				

LT: Long term; ST: Short term, LT/ST: Long term/Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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