Raghav Productivity Enhancers Limited

June 20, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long-term Bank Facilities	11.16	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Assigned
Short-term Bank Facilities	1.00	**CARE A3 (A Three)**	Assigned
Total Facilities	**12.16 (Rupees Twelve crore and sixteen lakh only)**		

Detailed Rationale & Key rating Drivers

The ratings assigned to the bank facilities of Raghav Productivity Enhancers Limited (RPEL) derive strength from the experienced and qualified promoters in the ramming mass industry with established as well as diversified customer and supplier base and its financial risk profile marked by healthy profitability margins as well as cash accruals, comfortable solvency structure. The ratings, further, derive strength from location advantage with ease of availability of raw material and labour.

These strengths are, however, partially offset by its modest scale of operations although growing, its presence in highly competitive and fragmented ramming mass industry and dependence on steel industry with elongated operating cycle.

The ability of RPEL to increase its scale of operations while improving/maintaining profitability margins in a highly competitive and fragmented industry and efficient management of working capital shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified promoters in the industry with established as well as diversified customer and supplier base

RPEL is promoted by Mr Sanjay Kabra and Mr Rajesh Kabra who have experience of more than two decades in the iron & steel industry. Both look after overall affairs of the company and are supported by a team of qualified managerial personnel having long-standing experience in the industry. Mr Deepak Jaju, CFO of the company, is a post graduate by qualification and has around 15 years of experience. Ms Neha Rathi, Company Secretary, is the compliance officer of the company. The marketing function is handled by Mr Raghav Kabra, son of Mr Rajesh Kabra, who is MBA by qualification and by Mr Vijay Kumar Paliwal, who is B. Tech. by qualification.

Location advantage with ease of availability of raw material and labour

RPEL’s manufacturing facility is situated at Newai (Rajasthan) which is located in close proximity to mines of quartz of silica, primary raw material of the company. Being present near to the source of raw material, it has advantages like easy availability of raw material, low transportation and storage cost. Furthermore, skilled labour is also easily available by virtue of it being situated in the quartz rich region.

Healthy profitability margins as well as cash accruals

Profitability margins of the company have witnessed continuous improvement in last four financial years ended FY18 and stood healthy as reflected by PBILDT and PAT margins of 21.43% and 12.30%, respectively, in FY18. The PBILDT margin has witnessed continuous improvement from 7.38% in FY14 to 7.87% in FY15 to 10.48% in FY16 to 13.63% in FY17 and further to 21.43% in FY18 owing to low raw material cost as well as high sales realisation.

Comfortable solvency position

The capital structure of the company stood comfortable with an overall gearing of 0.42 times as on March 31, 2018, improved from 0.72 times as on March 31, 2017, owing to lower utilisation of working capital borrowings as on balance sheet date and scheduled repayment of term loan as well as accretion of profit to reserves. Furthermore, due to low debt, interest expenses have declined and lead to improvement in interest coverage from 4.97 times in FY17 to 8.14 times in FY18.

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

Key Rating Weakness

Modest scale of operations

During FY17, TOI of the company declined by 8.62% over FY16 owing to demonetisation. However, in FY18, TOI has improved by 12.72% over FY17, mainly on account of increase in the demand of its products as well as high sales realisation. Despite increase in TOI as well as improvement in PAT level, the scale of operations of the company stood modest with TOI of Rs.47.73 crore in FY18.

Elongated operating cycle

The business of the company is working capital intensive marked by elongated operating cycle of 104 days in FY18 owing to high collection period. The operating cycle has elongated from 82 days in FY17 owing to low average creditor's period.

Presence in highly competitive and fragmented ramming mass industry and dependence on steel industry

The market for products of RPEL is competitive on account of existence of both the organised and unorganised players. Competition occurs generally on the key attributes such as quality of products, distribution network, pricing and timely delivery. Moreover, the unorganised sector can offer their products at highly competitive prices which may affect the sales and growth prospects of the company. Growing competition may result in a decline in the market share and may affect its margins which may adversely affect business operations and financial condition of the company.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Company
Financial ratios – Non-Financial Sector

About the company

Jaipur based RPEL was formed as Raghav Ramming Mass Private Limited (RRMPL) in 2009 by Mr. Rajesh Kabra along with his brother, Mr. Sanjay Kabra and subsequently, converted into public limited company in 2015. In April, 2016, it got listed on SME platform of Bombay Stock Exchange in September 2017 and the company has changed its name from Raghav Ramming Mass Limited to RPEL.

Initially, RPEL was engaged in the manufacturing, supply and export of quartz ramming mass which is widely used in the steel industry as a refractory material in lining of the inner surface of coreless induction furnaces for melting scrap, sponge and pig iron.

(Rs. in crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	42.34	47.73
PBILDT	5.77	10.23
PAT	2.54	5.87
Overall gearing (times)	0.72	0.42
Interest coverage (times)	4.97	8.14

(A; Audited), (NM; Not Meaningful)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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

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 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.

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-Term Loan	-	-	October 2020	2.16	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	9.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	1.00	CARE A3

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2.16	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	9.00	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A3	-	-	-	-

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