Raghav Productivity Enhancers Limited

August 06, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	11.34	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	1.00	**CARE A3 (A Three)**	**Reaffirmed**
Total facilities	**12.34 (Rs. Twelve Crore and Thirty-Four Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers

The ratings assigned to the bank facilities of Raghav Productivity Enhancers Limited (RPEL) continue to derive strength from experienced management in the ramming mass industry with diversified customer base, providing customized solution with major focus on quality and cost-benefit analysis, its location advantage with ease of availability of raw material and labour and income tax benefits available to the company. The ratings, further, continue to derive strength from continuous improvement in scale of operations since last two financial year ended FY19 (FY refers to the period April 01 to March 31), healthy profitability margins, comfortable solvency position and moderate liquidity position.

The ratings, however, continue to remain constrained on account of its modest scale of operations in a highly competitive and fragmented ramming mass industry and dependence on steel industry along with vulnerability of margins to fluctuation in foreign exchange rate.

The ability of RPEL to increase its scale of operations while improving/maintaining profitability margins and efficient management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified promoters in the industry with diversified customer 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 post graduate by qualification and has around fifteen years of experience. Ms. Neha Rathi, Company Secretary, is 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. Furthermore, RPEL has also associated with well qualified and experienced technical consultants who have expertise in quartz field and induction furnace industry.

RPEL has long-standing relationship with its customers present in domestic market as well in foreign market. Further, the customer base of the company is diversified which is reflected by top five customers contributing around 24.26% of Total Operating Income (TOI) of FY19.

Location advantage with ease of availability of raw material and labour

RPEL's manufacturing facility is situated at Newai (Rajasthan) which is located nearer to mines of quartz, primary raw material of the company. Being present nearer to raw material, it has advantage like easy availability of raw material, low transportation and storage cost. Further, skilled labour is also easily available by virtue of it being situated in the quartz rich region.

Income tax benefits available to the company

The company has got registration for its in-house Research & Development unit from Ministry of Science and Technology (Government of India) from March 23, 2018 to March 31, 2020. Section 35(2AB) of the Act provides weighted tax deduction of 150% of expenditure incurred by a specified company, on scientific research (not being expenditure in the nature of cost of any land or building) in the in-house R&D centres as approved by the prescribed authority. Hence, RPEL is benefitted under this section from March 23, 2018 to March 31, 2020.

Healthy profitability margins as well cash accruals

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

During FY19, Profitability of the company stood healthy with PBILDT and PAT margin of 23.47% and 14.23% respectively as against 21.36% and 12.34% respectively in FY18. PBILDT margin has improved by 211 bps in FY19 over FY18 owing to nil trading activity done in FY19 which offset by decline in margin in ramming mass. With increase in PBILDT margin, PAT margin has improved by 189 bps in FY19 over FY18 although lower in quantum owing to increase in depreciation.
Due to improvement in PAT level and high depreciation, GCA level of the company has also improved by 61.46% and stood healthy at Rs.11.44 crore in FY19.

Comfortable solvency position
The capital structure of the company stood comfortable with an overall gearing of 0.25 times as on March 31, 2019, improved from 0.47 times as on March 31, 2018 owing to lower utilization of working capital borrowings as on balance sheet date and scheduled repayment of term loan as well as accretion of profit to reserves.
Further, the debt service coverage indicators of the company stood comfortable marked by total debt to GCA of 0.70 times as on March 31, 2019, improved from 1.61 times as on March 31, 2018 owing to significant increase in GCA level as well as decline in total debt level. Further, interest coverage ratio has also improved from 7.55 times in FY18 to 8.87 times in FY19 owing to proportionately higher increase in PBILDT than increase in interest expenses.

Moderate liquidity position
The liquidity position of the company stood moderate marked by average utilization of 71.65% of its working capital bank borrowings during last twelve months ended June 30, 2019. Further, it has generated cash flow from operating activities of Rs.6.70 crore in FY19 as against Rs.6.90 crore in FY18. However, the operating cycle of the company stood elongated at 128 days in FY19 owing to high collection period. The debtors of the company stood at Rs.16.45 crore out of which Rs.5.69 crore debtors are more than six months as on March 31, 2019. The company has given liberal credit period to its customers owing to its established relationship with them as well as increase in export sales. Furthermore, the company is adding new customers and expanding its geographical base by providing high credit period. However, the sales are not against LC, although, there are no bad debts in the company in last three financial years ended FY19. Further, the inventory holding period is continuously increasing in last three financial years ended FY19 owing to higher raw material holding for timely execution of orders. Due to high debtors, the current ratio and quick ratio stood moderate at 1.81 times and 1.33 times respectively as on March 31, 2019. It has cash and bank balance of Rs.0.07 crore as on March 31, 2019. Furthermore, the company envisages gross cash accruals of Rs.11-12 crore as against total debt repayment of Rs.1.17 crore in FY20.

Key Rating Weakness
Continuous improvement in scale of operations since last two financial year ended FY19 although stood modest
Due to its established track record of operations with established relationship with its customers and continuous addition of new customers with geographical diversification, Total Operating Income (TOI) of the company has witnessed continuous improvement and grew at a Compounded Annual Growth Rate (CAGR) of 15.40% in last three financial years ended FY19. During FY19, TOI of the company has improved by 18.54% over FY18. RPEL has generated 86.67% of TOI from domestic sales (92.28% in FY18) and 13.32% (7.72% in FY18) of TOI from export. During FY19, it has generated 100% income from manufacturing of ramming mass and other products whereas in FY18, it has generated 74.17% of TOI from manufacturing activity and remaining from trading of iron and sheet. Despite continuous growth in scale of operations, the scale of operations of the company stood modest.

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 organized and unorganized players. Competition occurs generally on the key attributes such as quality of products, distribution network, pricing and timely delivery. Moreover, the unorganized sector can offers 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 market share and may affect its margins which may adversely affect business operations and financial condition of the company.
RPEL is engaged in the grinding of quartz stone into quartz powder. Quartz powder (Ramming mass) is used as a refectory lining material in the induction furnace used in the Iron and steel industry. Volume of sales will primarily depend on the prevailing and expected level of demand for iron in the world steel industry. A number of factors, the most significant of which is the prevailing level of worldwide demand for steel products, influence the world steel industry. Accordingly, any significant decrease in demand for steel products or decline in the price of these products could result in reduced demand for product prices which could significantly reduce the revenues of RPEL and which could materially adversely affect the results of operations and financial condition of the company.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
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. RPEL is engaged in the manufacturing, supply and export of quartz based ramming mass, quartz powder and tundish board. It sells its products under the brand name of "Raghav" in domestic market as well as in foreign market majorly African and Asia Pacific countries. The manufacturing facility of the company has installed capacity of 144000 Metric Tonnes Per Annum (MTPA) for manufacturing of ramming mass, 72000 MTPA for quartz powder and 7200 MTPA for tundish board. The plant of the company 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	47.57	56.39
PBILDT	10.16	13.24
PAT	5.87	8.03
Overall gearing (times)	0.47	0.25
Interest coverage (times)	7.55	8.87

** A: Audited*

Status of non-cooperation with previous CRA: None
Any other information: None
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-Term Loan	-	-	January 2021	1.34	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	10.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	1.34	CARE BBB; Stable	-	1)CARE BBB; Stable (20-Jun-18)	-	-

2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (20-Jun-18)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A3	-	1)CARE A3 (20-Jun-18)	-	-

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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