

Raghav Productivity Enhancers Limited

November 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	10.31 (Reduced from 11.34)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	11.31 (Rs. Eleven Crore and Thirty-One Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating of Raghav Productivity Enhancers Limited (RPEL) takes into account increase in scale of operations and cash profit during FY20 (FY refers to the period April 01 to March 31) and further improvement in liquidity position, apart from its healthy profitability margins and comfortable solvency position.

The ratings of RPEL, further, 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 efficiency, its location advantage with ease of availability of raw material and labour and income tax benefits available to the company.

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.

Rating Sensitivities

Positive Factor- Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations of the company above Rs.90 crore
- Sustained improvement in operating cycle to less than 90 days

Negative Factor- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operation below Rs.45 crore and decline in PBILD margin below 15%.
- Significant deterioration in solvency position with overall gearing more than unity owing to any debt funded project
- Deterioration of liquidity position owing to delay in payment from its customers.

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 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 and experienced managerial personnel. Further, RPEL has team of well qualified and experienced technical advisors who have expertise in the area of quartz and induction furnaces.

Providing customized solution to its diversified customer base with major focus on quality and efficiency

RPEL provides customized induction furnace lining solution using quartz ramming mass which increases productivity and reduces costs. It has hired industry-leading consultants to guide its continuous effort to institutionalise excellence. It has evolved from a commoditised product to a branded productivity enhancement solution provider.

Due to it, RPEL has established long relationship with its customers present in domestic market as well as in foreign market. Further, the customer base of the company is diversified which is reflected by top five customers contributing around 32.50% of Total Operating Income (TOI) in FY20.

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

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

transportation and storage cost. Further, skilled labour is also easily available by virtue of it being situated in the quartz rich region.

Certified plant and income tax benefits available to the company

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. Further, the company has received 'Energy Efficiency Award 2019' from All India Induction Furnaces Association (AIIFA) for significant contribution towards innovation in increasing the energy efficiency of induction furnace plants in India. AIIFA also recognized RPEL as the world's largest manufacturer of ramming mass. Furthermore, IBC Research, USA has recognized RPEL as Asia's most trusted ramming mass brand. It also awarded best SME 2019 award by Arracus Media and Economic Times.

Further, the company has been given recognition and registration to the In-house R&D approval from Department of Scientific and Industrial Research (DSIR) and Ministry of Science and Technology, Government of India. 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, further extended till March 2021.

Continuous improvement in scale of operations in last three financial year ended FY20 although stood modest

TOI of the company has witnessed continuous growth and grew at a Compounded Annual Growth Rate (CAGR) of 18.37% in last three financial years ended FY20 owing to its established track record of operations with repetitive orders from its customers and continuous addition of new customers. During FY20, TOI of the company has improved by 18.11% over FY19 and stood at Rs.66.65 crore. RPEL has generated 81.89% of TOI from domestic sales (86.69% in FY19) and 18.11% (13.31% in FY19) of TOI from exports.

Despite continuous growth in TOI, the scale of operations of the company stood modest marked by TOI of Rs.66.65 crore.

Healthy profitability margins

Profitability of the company stood healthy with PBILDT and PAT margin of 23.45% and 14.16% respectively in FY20 as against 23.56% and 14.26% respectively in FY19. The profitability of the company remained stable in FY20 over FY19. Due to continuous increase in scale of operations, GCA level of the company has witnessed continuous improvement in last three financial years ended FY20.

Comfortable solvency position

The capital structure of the company stood comfortable with an overall gearing of 0.15 times as on March 31, 2020, improved from 0.24 times as on March 31, 2019 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 0.54 times as on March 31, 2020, improved from 0.81 times as on March 31, 2019 owing to increase in GCA level as well as decline in total debt level. Further, interest coverage ratio has also improved from 8.92 times in FY19 to 17.34 times in FY20 owing to increase in PBILDT and decrease in interest expenses.

Key Rating Weaknesses

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

RPEL is engaged in the grinding of quartz stone into quartz powder. Ramming mass is used as a refractory 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. Further, the market for its products is competitive on account of existence of both the organized and unorganized players.

Vulnerability of margins to fluctuation in foreign exchange rate

RPEL is exposed to foreign exchange fluctuation risk considering that the company generated 18.11% of income from exports during FY20 and it does not follow active hedging policy and hence, its profitability is vulnerable to fluctuation in foreign exchange rate.

Impact of Covid-19

In view of the national lockdown imposed by the government to contain the spread of virus, the operation of the company was closed from March 23, 2020. The plant located at Newai (Tonk, Rajasthan) resumed its operations from May 04, 2020. Currently, its plants are operating at 60-65% of capacity. During H1FY21, it has registered Total Operating Income (TOI) of Rs.24.06 crore with PBILDT margin of 20.16% and PAT margin of 10.31%. During H1FY21, TOI of RPEL has declined by 28.44%

over H1FY20 owing to Covid 19 pandemic led disruption in production and sales. Further, due to Covid-19, the profitability of the company has also witnessed decline marked by 363 bps dip in PBILDT margin during H1FY21 as against H1FY20.

Liquidity: Adequate

The liquidity position of the company stood adequate marked by average utilization of 58.08% of its working capital bank borrowings during last 12-months ended September 30, 2020 and adequate GCA as against repayment obligation. Further, it has generated cash flow from operating activities of Rs.7.96 crore in FY20 as against Rs.4.90 crore in FY19 owing to lower working capital gap. However, the operating cycle of the company stood elongated at 134 days in FY20 owing to high credit period given to its customers and high raw material holding for timely execution of orders. Further, the current ratio and quick ratio stood adequate at 2.32 times and 1.77 times respectively as on March 31, 2020. Furthermore, the company has not availed moratorium for its bank facilities under Covid-19 relief measures announced by Reserve Bank of India. However, it has availed Rs.1.00 crore of Term Loan under covid-19 measures from bank for working capital requirement as confirmed by the client.

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 Instrument](#)

[Rating Methodology - Manufacturing Companies](#)

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

[Liquidity analysis for Non-Financial Sector](#)

About the Company

Jaipur (Rajasthan) 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 Bombay Stock Exchange and in September 2017 changed its name to RPEL.

RPEL is engaged in the manufacturing of quartz based ramming mass, quartz powder and tundish board. The manufacturing facility of the company is located nearby Jaipur and has installed capacity of 1,44,000 Metric Ton Per Annum (MTPA) for manufacturing of ramming mass, 72,000 MTPA for quartz powder and 7,200 MTPA for 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.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020
	A	A
Total operating income	56.43	66.65
PBILDT	13.30	15.63
PAT	8.05	9.44
Overall gearing (times)	0.24	0.15
Interest coverage (times)	8.92	17.34

A: Audited

During H1FY21, it has registered Total Operating Income (TOI) of Rs.24.06 crore with PBILDT margin of 20.16% and PAT margin of 10.31%.

Status of non-cooperation with previous CRA:

CRISIL has conducted the review on the basis of best available information and has classified the RPEL as "Not cooperating" vide its press release dated May 26, 2020.

Any other information: None

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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	0.31	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	0.31	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Aug-19)	1)CARE BBB; Stable (20-Jun-18)	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Aug-19)	1)CARE BBB; Stable (20-Jun-18)	-
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A3+	-	1)CARE A3 (06-Aug-19)	1)CARE A3 (20-Jun-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-N/A**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.	Fund-based - LT-Term Loan	Simple
3.	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:

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