Rajasthan Cylinders & Containers Limited

January 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	6.50	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Total Facilities	6.50 (Rupees Six crore and fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of Rajasthan Cylinders & Containers Limited (RCCL) is on account of decrease in scale of operations and incurring of net losses in FY19 (refers to the period from April 01 to March 31) as well as in H1FY20 (refer to the period from April 01 to September 30) with the expectation of further decline in scale of operations and incurring of higher losses in FY20.

The rating of RCCL continues to remain constrained on account of its small scale of operations with cash losses, weak debt coverage indicators and poor liquidity position. The rating has further remained constrained due to susceptibility of margins to volatility in raw material prices and highly competitive industry coupled with higher business risk associated with tender based orders.

The rating, however, continues to take comfort from experienced promoter with long track record, reputed albeit concentrated clientele base and moderate capital structure.

Rating Sensitivities

Positive Factors

- Substantial increase in scale of operations while reporting operating, cash as well as net profit
- Improvement in debt coverage indicators marked by positive total debt to GCA and interest coverage of at least 1 time

Negative Factors

- Significant decline in total operating income (TOI) from envisaged level and increase in net losses from current level
- Overall gearing deteriorating beyond 2 times.
- Non-receipt of new orders from Oil Marketing Companies (OMCs)

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations and tender driven nature of operations: Despite established track record of nearly 4 decades, RCCL's scale of operations continued to remain small marked by the Total Operating Income (TOI) of Rs.54.70 crore in FY19 which declined by nearly 5% on y-o-y basis on account of decline in revenue of valve & regulator segment. Sales from valve & regulator segment declined from Rs.31.94 crore in FY18 to Rs.20.98 crore FY19 on account of irregular and inconsistent orders from the Oil Marketing Companies (OMCs). Further, during FY19, OMCs did not place any order for supply of cylinders which subsequently affected supply of valves as well. Although, the sales volume and average sales realization for cylinder segment increased by 11% each in FY19 on y-o-y basis, the same has decreased in H1FY20. The company's scale of operations has declined in H1FY20 by 44.25% to Rs.12.61crore on y-o-y basis and the company expects its scale of operations to decline in FY20 on y-o-y basis on account of non-receipt of fresh orders for cylinders from OMCs.

LPG cylinders are procured by OMCs by way of invitation of tenders; RCCL faces stiff competition from other established players in terms of bidding. Further due to limited number of buyers coupled with lower bargaining power also put pressure on profitability of the company. As the major business of the company is through the tender-based system, therefore, the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, any changes in the OMC's policy towards procurement are likely to affect the revenues of the company.

Operating as well as cash losses along with susceptibility of margins to volatility in raw material prices and weak debt coverage indicators: Owing to tender driven nature of operations characterised by fixed mark-ups and lower bargaining power, the profitability of the company remained thin. The company incurred operating as well as cash losses in FY19 on account of execution of loss making orders for supply of cylinders and valves. Furthermore, profitability margins fluctuate on account of volatility in raw material prices, which is mainly Hot Rolled (HR) Coils of LPG grade steel and brass rods for

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

manufacturing of valves. RCCL mainly procures HR Coils from Steel Authority of India ltd, JSW Steel Ltd., while brass rods are procured from local manufacturer. Furthermore raw material accounts for nearly 68% of total cost of sales and prices of the same have remained inherently volatile therefore any adverse fluctuation in the price movement would impact the profitability as RCCL is able to pass on the price change to customers to certain extents mainly due to price escalation clause for foils/sheets only in the tenders.
With decline in TOI coupled with high fixed cost the company incurred operating and net loss of Rs.1.85 crore and Rs.2.58 crore respectively in FY19 as against PBILDT of Rs.1.62 crore and net loss of Rs.0.27 crore in FY18. The company has also reported net loss of Rs.1.83crore in H1FY20 and expects further widening of its net loss in FY20 on y-o-y basis. Further, debt coverage indicators also stood weak due to operating as well as cash loss in FY19.

Key rating strengths
Experienced promoters and established track record of operations: RCCL was promoted by Mr. S. G. Bajoria, who has extensive experience of more than 4 decades in various business activities. He was one of the founder promoter and chairman of RCCL and looked after the overall operations of the company. However, he ceased to be Chairman of the company from March 2015 due to health concerns. Currently Mr. Ashutosh Bajoria, son of Mr S. G. Bajoria is the managing director of RCCL having experience of more than 25 years. He looks after the overall operations of the company. Further the promoters are supported by qualified team of experience and qualified professionals. Further, the promoters provide support to the company in the form of unsecured loans from time to time as and when required. The promoter group infused unsecured loans of Rs.1.04crore in H1FY20 to support the operations as well as debt servicing of the company.

Reputed customers base albeit customer concentration risk: RCCL's revenues are primarily derived from the supply of LPG cylinders to the public sector oil marketing companies (OMC). During FY19, the total sales to the top three companies accounted for 88% (88% in FY18) of gross sales made during the year. The major clients include Indian Oil Corporation Limited (contributed ~23%), Bharat Petroleum Corporation Limited (contributed 26%) and Hindustan Petroleum Corporation Limited (contributed 39%). Hence, reliance on three customers for the overall sales exposes the company to customer concentration risk. However, RCCL has long-standing relationship with these OMCs for nearly four decades which offsets the risk to an extent. Currently, RCCL is also doing bottling for Divine Enterprises (Gas One).

Moderate capital structure: The capital structure of RCCL continued to remain moderate with an overall gearing of 0.65 times as on March 31, 2019; deteriorated marginally from 0.56 times as on March 31, 2018 mainly on account of decline in net-worth due to net loss incurred in FY19.

Poor liquidity: Liquidity position of the company stood poor marked by net loss and cash loss incurred in FY19 and H1FY20 and expected to incur cash losses in FY20 as well. Although the company does not have any long term debt repayment obligation, utilisation of fund based limits stood high at 93% during last 12 months ending December, 2019. Further, the company has free cash and bank balance of Rs.1.23 crore as on March 31, 2019. Operating cycle of the company improved from 60 days in FY18 to 40 days in FY19 on account of higher realisation of debtors. Further, RCCL's cash flow from operating activities improved to Rs.1.81 crore in FY19 from Rs.0.44 crore in FY18 on account realisation of debtors.
The processing time for manufacturing of cylinders is anywhere from 25-30 days, Further, the company keeps buffer stock of raw material to carry out its production activities uninterruptedly which resulted in to an average inventory period of 55 days in FY19. Current ratio of the company stood moderate at 1.66 times as on March 31, 2019 as against 1.86 times as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company
Incorporated in December 1980, Jaipur Rajasthan, based Rajasthan Cylinders & Containers Limited (RCCL) is BSE listed and was promoted by Mr. S. G. Bajoria along with his family members. RCCL is part of Jaipur based Bajoria group which is also engaged in manufacturing of Extra Neutral Alcohol (ENA), Rectified Spirit (RS) and Country Liquor (CL), Investment in Shares of Other Companies, Trading of Jute & Jute Products through other group entities mainly Agribiotech Industries Limited (ABIL; rated: CARE B+; Stable) and Beekay Niryat Limited (BNL; listed on BSE) and Rigmadrirappa Investment Private Limited.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	57.70	54.70
PBILDT	1.62	-1.86
PAT	-0.27	-2.58
Overall gearing (times)	0.56	0.65
Interest coverage (times)	1.34	NM

A: Audited; NM: Not Meaningful

During H1FY20, RCCL reported TOI of Rs.12.61 crore with net loss of Rs.1.83 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

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-Cash Credit	-	-	-	6.50	CARE B; Stable

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-Cash Credit	LT	6.50	CARE B; Stable	-	1)CARE B+; Stable (19-Mar-19)	-	-

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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