Rajasthan Cylinders & Containers Limited

December 22, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	6.00 (Reduced from 6.50)	CARE B; Stable (Single B; Outlook: Stable)	Reaffirmed
Total	**6.00 (Rs. Six Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Rajasthan Cylinders & Containers Limited (RCCL) continues to remain constrained on account of its small scale of operations with continuing operating, net and cash losses in FY20 (refers to period from April 01 to March 31), weak debt coverage indicators and poor liquidity. The rating is further 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 business.

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

Rating Sensitivities

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

- Substantial increase in scale of operations with registration of operating, cash as well as net profit
- Improvement in debt coverage indicators marked by positive total debt to GCA

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

- Increase in net losses from current level which subsequently results in erosion of net worth of the company
- Deterioration in overall gearing 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 with Decline in total operating income in FY20 and tender driven nature of business resulting in fluctuating revenue with high competition

LPG cylinders are procured by OMCs by way of invitation of tenders; however OMCs floated tenders for supply of cylinder and valve in November, 2019 and thus supply of the same commenced in January, 2020. Before November, 2019, tenders were floated in the month of February, 2019, however the same were withdrawn and thus the gap between the tenders was long which ultimately resulted in lower execution of orders leading to decline in scale of operations of the company in FY20 on y-o-y basis.

Total Operating Income (TOI) of the company declined significantly by 61.26% in FY20 over FY19 and stood at Rs.21.18 crore. Further, as articulated by the management, TOI was also lower due to closure of company's plant from March 22, 2020 onwards following nationwide lockdown due to COVID-19 pandemic. The plant became operational from end of May, 2020 and the company has reported a TOI of Rs.4.05 crore in Q1FY21. However, on the back of execution of orders in hand, the company expects increase in its total operating income in FY21 on y-o-y basis.

During FY20, sales quantity of LPG cylinders reduced by 59.38% over FY19 while sales realization on LPG cylinders declined by 9.26% in FY20 over FY19. Further in the case of valve, sales quantity declined by 58.31% in FY20 over FY19 while sales realization declined by 9.98% in FY20 over FY19. The orders received by the company have price escalation clause in it, thus with decrease in prices of raw-material, sales realization also decreased during FY20 and further in Q1FY21.

The raw-material cost for LPG Coil decreased by 11.98% in FY20 over FY19 owing to decrease in prices of steel during the year. Moreover, prices for brass rod also decreased by 9.30% in FY20 over FY19.

RCCL faces stiff competition from other established players in terms of bidding. Further limited number of buyers coupled with lower bargaining power also puts 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.

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

Operating as well as cash losses and weak debt coverage indicators along with susceptibility of margins to volatility in raw material prices

Owing to tender driven nature of operations characterized by fixed mark-ups and lower bargaining power, the profitability of the company remained thin. The company continued to report operating as well as cash losses in FY20 on account of limited orders in hand with 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 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 such as Shera Metal Private Limited and Rajputana Industries Private Limited. Furthermore raw material cost accounts for nearly 65-70% of total cost of sales and prices of raw material are 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 a certain extent mainly due to price escalation clause (for foils/sheets only) in the tenders.

With significant decline in TOI coupled with high fixed cost, the company operating operating and net loss of Rs.3.16 crore and Rs.3.51 crore respectively in FY20 as against operating and net loss of Rs.1.85 crore and net loss of Rs.2.58 crore respectively in FY19.

Further cash losses also increased from Rs.3.13 crore in FY19 to Rs.4.47 crore in FY20 owing to higher net loss along with higher provision for deferred tax asset. Moreover, company reported operating, net and cash loss of Rs.0.20 crore, Rs.0.57 crore and Rs.0.59 crore respectively in Q1FY21. Debt coverage indicators remained weak due to operating as well as cash loss in FY20. However, on account of expected increase in scale of operations translating to better economies of scale, the company expects decline in cash losses in FY21 on y-o-y basis.

Impact of COVID-19

Due to lockdown imposed by Govt. to contain Covid-19 pandemic, the company’s plant remained shut from March 22, 2020. With the relaxation announced in lockdown, the company’s plant became operational at the end of May, 2020. Presently, as articulated by the management, the company is not facing any issue with regard to raw-material procurement or availability of labour.

Further, the company has free cash and bank balance of Rs.1.00 crore as on September 02, 2020. As confirmed by the banker, the company has not availed any moratorium for its interest obligation on cash credit limit. However, it has been sanctioned Rs.1.18 crore under Guaranteed Emergency Credit Line scheme issued by the government, although due to decline in turnover in FY20, the bank has only disbursed Rs.0.59 crore (Interest rate- 9% per annum). The repayment of same will commence from April, 2021 and is to be repaid in 36 equal monthly instalments. Further, in the month of November, 2020, the company availed a loan of Rs.0.31 crore from a financial institution under COVID relief packages and the same will be repaid in 36 equal monthly instalment post six months moratorium.

Liquidity: Poor

Liquidity position of the company remained poor marked by net loss and cash loss incurred in FY20 with expectation of cash losses in FY21 as well. The company resorted to unsecured loans from promoters to fund its losses and for debt servicing. Further, utilization of fund based limits remained high at 95.02% for trailing 12 months period ending November, 2020. Further, the company has free cash and bank balance of Rs.1.31 crore as on March 31, 2020 which declined to Rs.1.00 crore as on September 02, 2020. Operating cycle of the company increased from 40 days in FY19 to 59 days in FY20 on account of increase in average collection and average inventory period with a decline in scale of operations; further creditor period also stretched in FY20. Current ratio and quick ratio of the company remained moderate at 1.51 times and 1.03 times respectively as on March 31, 2020 as against 1.66 times and 1.12 times as on March 31, 2019. However, cash flow from operating activities turned negative at Rs.2.57 crore in FY20 from positive Rs.2.11 crore in FY19 on account of increase in operating losses in FY20 along with decrease in working capital gap.

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 & chairperson 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 experienced 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. During FY20, the promoters infused unsecured loans amounting to Rs.2.57 crore to support its operations and debt servicing.

Diversified revenue profile

RCCL has diversified revenue profile including manufacturing of gas cylinders, LPG valves and refilling of LPG gas in cylinders. Initially, RCCL started with manufacturing various types of Gas Cylinders with capacity ranging from 2 to 50 kg and currently has installed capacity of 350000 cylinders per annum in a single shift. In 1999, as a part of backward and forward integration, the company diversified into manufacturing of LPG Valves and LPG pressure regulators respectively with installed capacity of 4000 units per day of each product. Currently, it has installed capacity to manufacture 1200000 LPG Valves per annum in a single shift. Moreover RCCL also has LPG bottling facility of 1500 Metric Ton (MT) per month and two storage bullets with consolidated storage capacity of 100 MT. RCCL conducts LPG bottling for third party on job work basis.

Reputed customers base albeit customer concentration risk along with moderate order book

RCCL's revenues are primarily derived from the supply of LPG cylinders to the public sector oil marketing companies (OMC). During FY20, the total sales to the top three companies accounted for 82.74% (82% in FY19) of TOI made during the year. The major clients include Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited. 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 said risk to an extent.

Presently the company has moderate order book amounting to Rs.40.12 crore as on October 19, 2020 forming around 1.89 times of TOI of FY20 with 7 orders in hand reflecting moderate order book position to be executed in next 3-4 months which reflects short term revenue visibility for the company. However, garnering new orders would be crucial from the point of view of medium to long term revenue visibility.

Moderate capital structure

The capital structure of RCCL continued to remain moderate with an overall gearing of 1.06 times as on March 31, 2020; deteriorated from 0.65 times as on March 31, 2019 on account of erosion of in net-worth due to net loss incurred in FY20 along with infusion of unsecured loans amounting to Rs.2.56 crore and availment of channel financing facilities from a financial institution to the tune of Rs.2.46 crore during the year. The same was availed for purchase of raw-material from specific suppliers i.e. JSW Steel Limited and Steel Authority of India Limited. Investment in associate concerns stood at Rs.5.33 crore as on March 31, 2020 (against Rs.5.34 crore as on March 31, 2019) and other investments (quoted and unquoted) stood at Rs.1.08 crore as on March 31, 2020 (against Rs.0.76 crore as on March 31, 2019). Moreover, loans to external parties remained high at Rs.8.41 crore as on March 31, 2020 against Rs.8.12 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Rating Methodology- Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Incorporated in December 1980, Jaipur based Rajasthan Cylinders & Containers Limited (RCCL) is BSE listed and was promoted by Mr. S. G. Bajoria along with his family members. The company is engaged in manufacturing of LPG cylinders, valves, regulators and filling of LPG gas. The company mainly supplies its products to public sector oil marketing companies. 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, Trading of Jute & Jute Products through other group entities which mainly include Agribiotech Industries Limited and Beekay Niryat Limited (BNL; listed on BSE) and Rigmadrirappa Investment Private Limited.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	54.69	21.18
PBILDT	-1.86	-3.16
PAT	-2.58	-3.51
Overall gearing (times)	0.65	1.06
Interest coverage (times)	-ve	-ve

A: Audited; -ve: Negative

In Q1FY21, RCCL has reported net sales of Rs.4.05 crore as well as net loss and cash loss of Rs.0.57 crore and Rs.0.59 crore respectively.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

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-Cash Credit	-	-	-	6.00	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 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-Cash Credit	LT	6.00	CARE B; Stable	-	1)CARE B; Stable (27-Jan-20)	1)CARE B+; Stable (19-Mar-19)	-

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

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

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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