

Rajasthan Cylinders & Containers Limited
March 19, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6.50	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total facilities	6.50 (Rupees Six Crore Fifty lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Rajasthan Cylinders & Containers Limited (RCCL) continues to remain constrained on account of its small scale of operations, weak debt coverage indicators, thin profitability margins along with net losses in FY18 and 9MFY19 and moderate liquidity position and operating cycle. The rating is further constrained by 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 customers base though concentrated and moderate capital structure.

Further the ability of RCCL to increase its scale of operations with increase in order book and profitability while maintaining its capital structure shall remain the key rating sensitivities

Detailed description of the key rating drivers**Key Rating Weaknesses**

Moderate operating cycle and liquidity position: The operating cycle of the company stood moderate at 60 days in FY18, mainly due to elongated inventory and receivable days on account of decline in total income in FY18. The liquidity position of the company stood moderate during FY18 marked by current ratio of 1.86 times as on March 31, 2018, Further RCCL reported to earn operating cash flow of Rs.1.10 crore in FY18. Average maximum utilization of the working capital limits remained at 96% for past 12 months ended December 31, 2018. RCCL has reported operating losses in 9MFY19 leading to deterioration in liquidity position and interest servicing is happening through infusion of unsecured loans.

Small scale of operations: RCCL's scale of operations continued to remain small marked by moderate Total Operating Income (TOI) which remained in the modest range over the last four years ending March 31, 2018. During FY18 the TOI of the company declined by nearly 26% over FY17 to Rs.57.70 crore mainly on account of decline in revenue of cylinder segment in FY18 on account of lower orders from the Oil Marketing Companies (OMCs) and delay in finalization of procedure of supply by OMCs post implementation of GST.

Tender driven nature of operations: LPG cylinders are procured by OMCs through invitation of tenders; RCCL faces stiff competition from other established players in terms of bidding. Further limited number of buyers coupled with lower bargaining power also put pressure on profitability of the company. As RCCL source business mainly 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 company's policy towards procurement are likely to affect the revenues of the company.

Thin and fluctuating profitability, susceptible to volatile raw material prices: RCCLs operations are tender driven in nature leading to fixed mark-ups and lower bargaining power, the profitability of the company remained thin marked by thin PBILDT and PAT margin. Further profitability of the company was also adversely affected due to declined in TOI coupled with increase in employee cost and manufacturing expenses led to decline in PBILDT margin by 104 bps to 2.81% (Rs.1.62 crore) in FY18 over FY17. Further, the company has reported net losses in FY18 and 9MFY19 mainly on account of lower orders in cylinder as well as Valve division.

Weak debt coverage indicators: RCCL earned lower cash accruals owing to losses in FY18 leading to weak debt coverage indicators marked by Total debt to GCA of 36.42 times as on March 31, 2018. Moreover PBILDT interest coverage stood at 1.34 times during FY18.

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. Currently Mr. Avinash 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.

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

Moderate capital structure: The capital structure of RCCL remained moderate marked by moderate overall gearing of 0.56 times as on March 31, 2018 mainly on account of infusion of unsecured loans from related parties.

Diversified product portfolio: RCCL has diversified product portfolio including manufacturing of gas cylinders, LPG valves and refilling of LPG gas in cylinders. RCCL has started with manufacturing various types of Gas Cylinders with capacity ranging from 2 to 50 kg and currently has installed capacity of 1200 cylinders per day. In 1999 as a part of backward and forward integration the company diversified into manufacturing of LPG Valves and LPG pressure regulators. Currently, it has installed capacity to manufacture 20000 LPG Valves per day. 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: RCCL revenues are primarily derived from the supply of LPG cylinders to the public sector oil marketing companies (OMC). 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 certain extent. Currently, RCCL is doing bottling for the SHV Energy Private Limited (Super Gas).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

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

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 engaged in manufacturing of LPG gas cylinders, regulators and valves, further it is also does bottling of LPG gas on job work basis. 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), Trading of Jute & Jute Products through other group entities mainly Agribiotech Industries Limited and Beekay Niryat Limited.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	78.25	57.70
PBILDT	3.02	1.62
PAT	0.74	-0.27
Overall gearing (times)	0.42	0.56
Interest coverage (times)	2.12	1.34

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable.

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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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 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-Cash Credit	LT	6.50	CARE B+; Stable	-	-	-	-

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