Rasandik Engineering Industries India Limited

February 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	80.93	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Rating reaffirmed and Outlook Revised from CARE BB+; Stable
Short-Term Bank Facilities	11.59	CARE A4 (A four)	Revised from CARE A4+
Total Facilities	92.52 (Rs. Ninety two and fifty two lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook reflects the deterioration in the financial profile of the company during Q3FY20/9MFY20 amid slow-down in the auto sector. Further, the revision in the short-term ratings of the bank facilities of Rasandik Engineering Industries India Limited (REIIL) primarily takes into account the high working capital utilization along with stretched liquidity position.

The reaffirmation of the long term ratings continue to be constrained by moderate financial risk profile followed by decline in profitability margins in FY19, exposure to fluctuation in raw material prices and cyclical nature of the automotive industry. On the other hand, the ratings derive strength from its well experienced promoters, strategic location of manufacturing units with in-house design and engineering capabilities.

Rating Sensitivities

Positive Factors

- Sustained improvement in the scale of operations beyond Rs.350 crores backed by the operational performance.
- Sustained improvement in the PBILDT margins above 13%.

Negative Factors

- Deterioration in the scale of operations below Rs.200 crores.
- Deterioration in the PBILDT margins below 3%.

Outlook: Negative

The revision in the outlook to negative from stable reflects persistent slow-down in the auto sector leading to decline in revenues, both sequentially and quarter on quarter basis, resulting into increase in the losses at net levels during Q3FY20. Consequently, working capital utilization has remained high and debt coverage indicators have moderated. Going forward, the outlook may be revised to stable if the financial profile of the company improves leading to increase in revenues and profitability at net level and decline in the working capital utilization levels, thus, ensuring that enough liquidity cushion is available to the company.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate Financial risk profile during 9mFY20

Company reported a TOI of Rs.169.60 crores during 9MFY20 as against a TOI of Rs.189.40 crores during 9MFY19 thus, reporting a decline of ~10% y-o-y. The same has been on account of the continuing slow-down in the auto sector. Further, the company reported losses of Rs.2.83 crores during 9MFY20 as against a PAT of Rs.2.48 crores during 9MFY19. The PBILDT margins of the company declined to 4.31% in 9MFY20 (PY: 12.81%).

FY19: During FY19, the total operating income of the company witnessed y-o-y growth of 11.18% from Rs. 242.98 cr in FY18 to Rs.270.15 cr. in FY19 on account of increase in the sales of sheet metal components. MSIL, major customer of REIIL contributes ~53% of the total operating income in FY19.

The PBILDT margins declined to 10.60% (PY: 12.58%) on account of decline in the sales of tools and dies which is a high margin product for the company. During FY19, REIIL reported PAT of Rs.2.90 cr. (PY: Rs.1.27 cr.). However, the PAT margins have increased to 1.06% in FY19 as against 0.52% in FY18.

The overall gearing of the company improved to 0.88x as on March 31, 2019 as against 1.42x as on March 31, 2018 on account of decline in the company's term debt to Rs.37.62 crores as on March 31, 2019 as against Rs.55.98 crores as on

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

March 31, 2018. Furthermore, the coverage indicators of the company such as Total Debt to GCA stood at 4.95x (PY: 7.37x) and interest coverage ratio stood at 2.30x (PY: 1.86x).

Working capital intensive operations

Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The customers are allowed credit period of 30-40 days, while payments to suppliers are made in 50-60 days. However, the company is required to maintain inventory of close to 2.5 months. The operating cycle of the company remains between 55-65 days. In FY19 also the operating cycle of the company stood at 59 days (PY: 57 days).The working capital utilization usually remains high at 98% during 12months for the period ending January 31, 2020.

Exposure to fluctuation in raw material prices

The company receives orders from Maruti Suzuki Indi Limited (MSIL) and other OEMs regularly as per their production schedule and simultaneously REIIL procures raw material from its suppliers. The increase in raw material prices can be passed on to the OEM's but with time lag (1-2 months). Hence, to that extent, the profitability remains exposed to the fluctuation in raw material prices. Furthermore, being a moderate sized player in the auto ancillary segment, REIIL has limited negotiation power vis-à-vis its customers which are large and established OEMs.

Cyclical nature of the automotive industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

Key Rating Strengths

Experienced Promoters

Mr. Rajiv Kapoor, the Managing Director & Chairman of REIIL has an experience of more than two decades in the automotive components industry. He started the business with a manufacturing plant in Gurgaon in 1986. REIIL has received continued funding support from the promoters and associates for part-funding debt obligations and easing liquidity position. During FY19, the unsecured loans with the company amounting to Rs.3.65 crore were converted into equity in July, 2018.

Strategic location of manufacturing units with In-house design and engineering capabilities

REIIL is engaged into manufacturing of sheet metal components like dead axles, suspension parts, skin panels, fuel tanks, motorcycle frames etc. The company has 5 operational plants at Gurgaon (2); Surajpur, Greater Noida (1); Mewat (1); Pune (1) with an installed capacity of 72000 MT for Sheet metal components and 30, 00,000 MT for Tailor Welded Blanks.
REIIL's design, engineering capability and ability to manufacture sheet metal pressed components with consistent quality and reliability is well acknowledged by OEM customers resulting in repeated orders y-o-y. Necessary drawings or blue print are provided by the client based on which company designs the tool. REIIL is well equipped with CAD/CAM/CAE design capability, tool room and manufacturing capacities with CNC wire cutting machines, welding machines and presses for manufacturing of tool.

Liquidity: Stretched

Liquidity is marked by tightly matched accruals to the repayment obligations during FY20. The company is having high working capital utilization at 98% for the 12 months ending January, 2020. The current ratio of the company, stands low at 0.65x as on September 30, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for auto ancillary companies
CARE's methodology for manufacturing companies
CARE's methodology for financial ratios (Non-Financial Sector)

About the Company

Incorporated in 1984, Rasandik Engineering Industries India Ltd (REIIL) promoted by Mr. Rajeev Kapoor is engaged in providing engineering solutions, designing, manufacturing to delivery of sheet metal components (press tools & dies, laser tailor welded blanks, fuel tanks, oil pans, skin panels & body parts) and assemblies to automobile industry. The company has 5 manufacturing facilities.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	242.98	270.15
PBILDT	30.56	28.62
PAT	1.27	2.90
Overall gearing (times)	1.42	0.88
Interest coverage (times)	1.86	2.30

Status of non-cooperation with previous CRA: Not Applicable

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-Term Loan	-	-	September, 2022	33.93	CARE BB+; Negative
Fund-based - LT-Cash Credit	-	-	-	47.00	CARE BB+; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	2.50	CARE A4
Fund-based - ST-Bank Overdraft	-	-	-	9.09	CARE A4

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	33.93	CARE BB+; Negative	1)CARE BB+; Stable (04-Oct-19)	1)CARE BB+; Stable (14-Aug-18) 2)CARE BB+; Stable (10-Aug-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	47.00	CARE BB+; Negative	1)CARE BB+; Stable (04-Oct-19)	1)CARE BB+; Stable (14-Aug-18) 2)CARE BB+; Stable (10-Aug-18)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	2.50	CARE A4	1)CARE A4+ (04-Oct-19)	1)CARE A4+ (14-Aug-18) 2)CARE A4+ (10-Aug-18)	-	-
4.	Fund-based - ST-Bank Overdraft	ST	9.09	CARE A4	1)CARE A4+ (04-Oct-19)	1)CARE A4+ (14-Aug-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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