

## Rasandik Engineering Industries India Limited

August 14, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	84.29 (enhanced from Rs.47.50 crore)	<b>CARE BB+; Stable</b> <b>(Double B Plus; Outlook: Stable)</b>	Reaffirmed
Short Term Bank facilities	12.00 (enhanced from Rs.2.50 crore)	<b>CARE A4+</b> <b>(Single A Four Plus)</b>	Reaffirmed
<b>Total facilities</b>	<b>96.29</b> <b>(Rupees Ninty Six crore and Twenty Nine Lakh Only)</b>		

*Details of instruments/facilities in Annexure-I*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Rasandik Engineering Industries India Limited (REIL) are primarily constrained by REIL's high working capital utilization, working capital intensive operations, exposure to fluctuation in raw material prices and cyclical nature of the automotive industry. The ratings also factors in past delays in debt servicing, however the conduct is satisfactory after equity infusion in FY18 and prepayment of term debt liabilities for FY19. The ratings derive strength from its well experienced promoters, strategic location of manufacturing units with In-house design and engineering capabilities, improvement in financial risk profile marked by stable operations and improved profitability. Going forward, the ability of REIL to improve profitability, while scaling up operations and improvement in capital structure and would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **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 3 months. The operating cycle of the company remains between 55-65 days. In FY18, the operating cycle of the company stood at 57 days. The working capital utilization usually remains high (avg: 96%, max: 98% during 12m period ending 30-June-18). Further, the large portion of working capital borrowing has resulted in low current ratio of the company of 0.65x as on 31-Mar-18 (PY: 0.72x).

##### **Exposure to fluctuation in raw material prices**

The key raw material for REIL's product is steel sheets, the prices of which are volatile. The company receives orders from MSIL and other OEMs regularly as per their production schedule and simultaneously REIL 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, REIL 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 REIL 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. REIL has received continued funding support from the promoters and associates for part-funding debt obligations and easing liquidity position.

#### **Improvement in capital structure supported by equity infusion in FY19 backed by prepayment of debt**

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

The promoters have been consistently supporting REIL by providing interest free unsecured loans to meet the working capital requirements. During Q1FY19, company raised funds to the tune of Rs.22.26 cr. The same was utilized towards the prepayment of term loans for FY19 to reduce the interest cost and improve the capital structure. The overall gearing improved from 1.68x as on March 31, 2017 to 1.42x as on March 31, 2018. Further, the debt to equity ratio also improved further to 0.74x as on March 31, 2018 (PY: 1.00x).

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

REIL 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. REIL'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. REIL 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.

**Financial risk profile marked by stable operations**

The Company's total operating income has been consistently increasing by compounded annual growth of 11% from FY16-FY18 to Rs. 242.98 cr in FY18. The PBILDT margin remained stable to 12.58% (PY: 12.27%) despite increase in steel prices on account of lower operating overheads and lower power and fuel cost. Further, interest coverage indicators improved to 1.86x as on March 31, 2018 as against 1.34x as on March 31, 2017. Going forward, the sales are expected to increase primarily on account of a new contract with Indian Railways for supply of bio-toilets and also addition of new customer- Ashok Leyland in FY19 for supply of sheet metal components.

**Analytical approach: Standalone**

**Applicable criteria**

- [Criteria on assigning Outlook to Credit Ratings](#)
- [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 (REIL) promoted by Mr. Rajiv 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	217.75	242.98
PBILDT	26.71	30.56
PAT	4.93	1.27
Overall gearing (times)	1.68	1.42
Interest coverage (times)	1.34	1.86

A: Audited

**Status of non-cooperation with previous CRA: NA**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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#### Disclaimer

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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-Term Loan	-	-	Sept 2022	37.29	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	47.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.50	CARE A4+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	9.50	CARE A4+; 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-Term Loan	LT	37.29	CARE BB+; Stable	1)CARE BB+; Stable (10-Aug-18)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	47.00	CARE BB+; Stable	1)CARE BB+; Stable (10-Aug-18)	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	2.50	CARE A4+; Stable	1)CARE A4+ (10-Aug-18)	-	-	-
4.	Fund-based - ST-Bank Overdraft	ST	9.50	CARE A4+; Stable	-	-	-	-

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