Rasandik Engineering Industries India Limited

October 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	80.93 (reduced from 84.29)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short-Term Bank Facilities	11.59 (reduced from 12.00)	CARE A4+ (A four Plus)	Reaffirmed
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 ratings assigned to the bank facilities of Rasandik Engineering Industries India Limited (REIIL) are primarily constrained by REIIL's high working capital utilization, 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, moderate financial risk profile marked by improvement in capital structure.

Going forward, the ability of REIIL to improve profitability, while scaling up operations and its prudent utilization of working capital limits would be the key rating sensitivities

Detailed description of the key rating drivers

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 30-June-19.

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.

Moderate Financial risk profile

The Company's total operating income has been consistently increasing by compounded annual growth of 11% to Rs. 270.15 cr in FY17-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. MSIL, major customer of REIIL contributes ~53% of the total operating income in FY19. However, the PBILDT margin declined to 10.60% (PY: 12.58%). During FY19, REIIL reported PAT of Rs. 2.90 cr (PY: Rs. 1.27 cr). The PAT margin has increased to 1.06% in FY19 as against 0.52% in FY18.

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

Improvement in capital structure supported by equity infusion in FY19
The promoters have been consistently supporting REIIL by providing interest free unsecured loans to meet the working capital requirements. During FY19, company raised funds as equity to the tune of Rs.24.07 cr. The same was utilized towards the prepayment of term loans for FY19 to reduce the interest cost and improve the capital structure.
The company's term debt decreased from Rs. 55.98 cr as on March 31, 2018 to Rs. 37.62 cr as on March 31, 2019 leading to improvement in overall gearing from 1.42x as on March 31, 2018 to 0.88x as on March 31, 2019. Further, the debt to equity ratio also improved further to 0.35x as on March 31, 2019 (PY: 0.74x).
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
The company is having a stretched liquidity position with current ratio of 0.87x on account of higher Current Portion of long term debt. In FY19 also the operating cycle of the company stood at 59 days (PY: 57 days) on account of higher inventory days at close to 2.5 months. The working capital limits are almost fully utilized at 98% and the company is having a modest cash balance of Rs.0.75 crores as on June 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

A: Audited

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	-	-	Sept, 2022	33.93	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	47.00	CARE BB+; Stable
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+; Stable	-	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+; Stable	-	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+ (14-Aug-18) 2)CARE A4+ (10-Aug-18)	-	-
4.	Fund-based - ST-Bank Overdraft	ST	9.09	CARE A4+	-	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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