Rasandik Engineering Industries India Limited

November 25, 2020

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	74.66 (Reduced from 80.93)	CARE BB- (Under Credit watch with Developing Implications) (Double B Minus) (Under Credit watch with Developing Implications)	Revised from CARE BB+; Negative (Double B Plus; Outlook: Negative); Placed on Credit watch with Developing Implications
Short Term Bank Facilities	11.85 (Enhanced from 11.59)	CARE A4 (Under Credit watch with Developing Implications) (A Four) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**86.51 (Rs. Eighty-Six Crore and Fifty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long term rating assigned to the bank facilities of Rasandik Engineering Industries India Limited (REIIL) takes into account deterioration in company's financial risk profile in FY20 (FY refers to the period between April 01 to March 31) marked by decline in total operating income y-o-y basis, net losses and deteriorating solvency positon. The ratings are constrained by working capital intensive nature of operations, exposure to fluctuation in raw material prices and cyclical nature of automotive industry. The ratings assigned to the bank facilities of REIIL continues to derive strength from its extensive experience of promoters, strategic location of manufacturing units along with In-house design and engineering capabilities and long track record of operations with reputed customer base.

The rating action on outlook takes cognizance of the company's application for restructuring of loans to its lenders under the Reserve Bank of India's (RBI) guidelines issued on August 6, 2020.

The company had met its repayments till February 2020, post which they have availed moratorium on payments from March 2020 till August 2020 from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 03, 2020. The subsequent payments by the company from the month of September 2020 onwards have not been met on its due date as restructuring process has been initiated vide letter dated September 2, 2020 to its lenders. The action is in line with CARE Rating Ltd.'s criteria on 'Analytical treatment for one-time restructuring due to Covid-19 related stress', issued on September 29, 2020.

https://www.careratings.com/upload/pr/Analytical%20treatment%20of%20restructuring%20-%20COVID-Revised-29.pdf

CARE will monitor the outcome of the restructuring proposal and its implications on REIIL. Receipt of approval of invocation is a key rating sensitivity. The ratings will be removed from credit watch and final rating action will be taken once clarity emerges on the outcome of the proposed restructuring plan.

Rating Sensitivities

Positive Factors

- *Sustained improvement in the scale of operations beyond Rs.300 crores*
- *Sustained improvement in the PBILDT margin above 12%.*

Negative Factors

- *Decline in the scale of operations below Rs.150 crores and decline in profitability margins*
- *Rejection of proposal for One-Time Restructuring(OTR) or delay in implementation*

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile marked by declining total operating income and profitability

The total operating income of the company declined from Rs. 274.14 cr in FY19 to Rs. 208.97 cr in FY20. Further, the company's PBILDT margin fell significantly to 3.08% (PY: 11.94%) in FY20. The decline in total operating income in FY20 was mainly attributed to slowdown in automobile industry which led to decline in volumes. The decline in profitability margins was on account of slowdown in automobile industry coupled with COVID-19 pandemic leading of shut down of operations during March 2020 . Consequently, the company has reported losses at PAT level of Rs. 3.32 cr in FY20 as against the profit of Rs. 2.90 cr in FY19.
Due to the lockdown and low business volume, Q1FY21 revenues were impacted and the company could only generate TOI of Rs. 8.74 crore (Q1FY20: Rs. 66.28 crore). However, as unlock guidelines unfolded in mid-May and operations resumed gradually, the reported TOI for Q2FY21 stood at Rs. 33.64 (PY: Rs. 54.16 crore). The PBILDT margin, however, has improved from 3.08% for FY20 to 7.03% for H1FY21 on account of cost rationalization measures taken by the company. Further, the company reported net losses in H1FY21.

Moderate Capital Structure and stressed debt coverage indicators
The capital structure of the company is moderate as marked by the total debt of Rs. 81.26 cr (PY: Rs. 94.35 cr) as against the tangible net worth of Rs. 104.03 cr (PY: Rs. 107.22 cr). The overall gearing of the company stood at 0.78x (PY: 0.88x) as on March 31, 2020. on account of scheduled repayments of long-term debt. On account of losses reported during FY20, the debt coverage stood stressed as reflected from interest coverage ratio which is below unity for FY20.

Working capital intensive operations
Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The operating cycle of the company has increased to 74 days (PY: 59 days) for FY20. The increase is on account of piling up of inventory due to low business volume which has led to an increase in inventory period to 87 days (PY: 70 days) as on 31 March 2020. Further, the large portion of current assets is funded through external borrowing which has resulted in low current ratio of the company of 0.57x as on 31 March 2020 (PY: 0.76x).

Exposure to fluctuation in raw material prices
The key raw material for REIIL'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 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.

Industry analysis
The festive season demand for automobiles this year shall be distributed between October and November, while the wedding season demand shall gain pace November onwards and last for 3 months. Hence, retail sales are expected to be high up to January 2021, post which a dent in automobiles demand is likely.

Key Rating Strengths
Experienced Promoters
REIIL was promoted by Mr. Rajiv Kapoor in 1986 to manufacture auto components with its first manufacturing facility in Gurgaon. Mr. Kapoor is an IIT Delhi graduate and has over three decades of experience in the auto components manufacturing system. He manages business operations largely concentrating on the product developments, new business opportunities, technology up-gradation, product quality and growth strategies. He is ably supported by Mrs. Deepika Kapoor, who looks after human relations, company management and general administration.

Strategic location of manufacturing units
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 has its manufacturing plants located near manufacturing facilities of OEMs to meet the latter's requirements. This helps REIIL to remain competitive by combating transportation cost and continuous supply of components. The company has an

integrated manufacturing plants encompassing stamping, pressing, welding (Robot Spot welding, Robot MIG welding, Nut welding etc.), and assembling, sealing and painting capabilities.

In-house design and engineering capabilities
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 customers 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.

Long track record of operations with reputed customer base albeit customer concentration risk
REIIL has a long track record of operations in auto-ancillary business since 1986. The company has an established relationship with leading OEMs. The top-5 customers of the company accounted for more than 75% of Sales during the last two financial years (FY19-FY20); thereby exposing the company towards customer concentration risk.
Although, the customer base of the company is largely skewed towards automobile industry, however, the concentration risk is mitigated to an extent as the top revenue contributors of the company are well established players who enjoy strong market position in the industry.

Liquidity: Poor
The liquidity position of the company remained poor as reflected from current ratio of 0.57x as on March 31, 2020. The average working capital utilization limit for last twelve months ended September 2020 stood high at around 95%. Furthermore, it is expected that company is likely to report negative gross accruals in FY21 which could constrain the ability of the company to repay its debt obligations on a timely basis. To meet the liquidity requirements, the company has requested its banker for the implementation of resolution plan under One Time Restructuring(OTR) as per the RBI's Circular on 'Resolution Framework for COVID-19 related stress' dated Aug 6, 2020.
Also, to tide over the uncertainty attached to the Covid-19 outbreak, the company has availed moratorium of six months from March 2020 till August 2020.

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)
Criteria on Analytical Treatment for one-time restructuring (OTR) due to COVID-19 related stress

About the Company
Incorporated in 1986, Rasandik Engineering Industries India Ltd (REIIL) promoted by Mr. Rajiv Kapoor is engaged in providing engineering solutions, designing and manufacturing delivery of sheet metal components and assemblies to automobile industry. The company manufactures sheet metal components, press tools and dies for high tensile application in Heavy Commercial Vehicle (HCV), Light Commercial Vehicle (LCV), Passenger Vehicle (PV), tractors and 2-wheeler industry, heavy fabrication for railways. The company has an installed capacity of 72000 MT for sheet metal components and 30,00,000 MT for Tailor Welded Blanks as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	274.14	208.97
PBILDT	32.73	6.43
PAT	2.90	-3.32
Overall gearing (times)	0.88	0.78
Interest coverage (times)	2.60	0.57

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Not Applicable*
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-Term Loan	-	-	-	27.66	CARE BB- (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	47.00	CARE BB- (Under Credit watch with Developing Implications)
Non-fund-based - ST-Bank Guarantees	-	-	-	2.50	CARE A4 (Under Credit watch with Developing Implications)
Fund-based - ST-Bank Overdraft	-	-	-	9.35	CARE A4 (Under Credit watch with Developing Implications)

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-Term Loan	LT	27.66	CARE BB- (Under Credit watch with Developing Implications)	-	1)CARE BB+; Negative (25-Feb-20) 2)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- (Under Credit watch with Developing Implications)	-	1)CARE BB+; Negative (25-Feb-20) 2)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 (Under Credit watch with Developing Implications)	-	1)CARE A4 (25-Feb-20) 2)CARE A4+ (04-Oct-19)	1)CARE A4+ (14-Aug-18) 2)CARE A4+ (10-Aug-18)	-
4.	Fund-based - ST-Bank Overdraft	ST	9.35	CARE A4 (Under Credit watch with Developing Implications)	-	1)CARE A4 (25-Feb-20) 2)CARE A4+ (04-Oct-19)	1)CARE A4+ (14-Aug-18)	-

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
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Bank Overdraft	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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