Revathi Engineering Private Limited

December 17, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	3.00	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term/ Short term Bank Facilities	2.50	**CARE B+; Stable/ CARE A4 [(Single B Plus; Outlook: Stable)/A Four]**	**Reaffirmed**
Total	**5.50 (Rs Five Crore and fifty lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The rating assigned to the bank facilities of Revathi Engineering Private Limited (REPL) are continues to be tempered by small scale of operations, weak debt coverage indicators albeit improved during FY19, working capital intensive nature of operations. Short term revenue visibility from its current order book position. The rating, however, derives its strengths from long track record of operations with experienced promoters of the company, reputed client base and favorable industry prospects. The rating however takes into account decline in total operating income and improved capital structure in FY 19.

Positive factors

- Increase in TOI by 20% by leads to substantial increase in GCA.

Negative factors

- Interest coverage ratio going below1.50x weakens the financial risk profile of the company

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with declining total operating income

Despite the long track record of operations and over three decades of experience of promoters in this field, the scale of operations of the company stood relatively small at Rs 1.71 crores in FY19 with small net worth base of Rs.4.18 crores as on 31st March 2019 in comparison to other peers in the same segment. The TOI of the company declined to Rs.7.66 crores in FY17 to Rs.4.15 crores in FY 18 and further to Rs 1.71 crores in FY19 due to lower execution of work orders since company is procure order from reputed client ANSP.

Weak debt coverage indicators albeit improved during FY19.

The TD/ GCA of the company albeit improved but remained weak at 13.94x in FY 19. Interest coverage ratio stood moderate at 1.90x in FY 19.

Short term revenue visibility from its current order book position

The company has order book of Rs.9.80 crore as on November 30, 2019. The order value amounting to Rs.4.60 crore is under inspection stage which is expected to be completed by last week of December 2019 and Rs.5.20 crore by May 2020The said order book provides revenue visibility for short-term period and the order book is related to Manufacturing of Missile wings.

Working capital intensive nature of operations

The company operates in working capital intensive nature of operations, hence the operating cycle days elongated and stood at 2444 days in FY 19. Due to components undergo various testing process and depending on the complexity of orders the duration of manufacturing the product ranges from 360 days- 450 days. As on balance sheet closing date the inventory days are high due to the company has stock in progress for quality testing. Further the company receives the payment from its debtors after the components are checked for quality from client side. The average utilization of cash credit facility was 99% for the last twelve months ended November 30, 2019.

Key Rating Strengths

Long track record of operations with experienced promoters for more than three decades in manufacturing of Aerospace components.

REPL is promoted by Mr. Phanindra (CEO of the company) along with his wife Mrs. G. Revathi.Both the directors are post graduates and have more than three decades of experience in aerospace components manufacturing. The company has a long operational track record of 36 years in this segment.

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

Satisfactory capital structure
The debt equity ratio of the firm deteriorated to 0.67x as on 31st March 2018 to 0.75x as on 31st March 2019 on account of availment of unsecured loans. Due to aforesaid reason and higher utilization of working capital facility the overall gearing ratio of the company deteriorated to 1.26x as on 31st March 2018 to 1.29x as on 31st March 2019.

Turnaround from net loss to net profit in FY19
The company has reported the net loss in FY18. The PBILDT margin of the company stood at 54.64% in FY 19 due to higher closing stock at the end of the year. The PAT margin of the company turnaround to net profits and stood at 4.65% in FY 19. The company has achieved net profit of Rs. 0.08 crore as against net loss of Rs. 1.21 crore. Further, GCA of the company has Rs.0.04 crore in FY19.

Favorable industry prospects
Outlook for the aerospace industry is positive amidst increasing costs and negative market responses, the demand for aerospace components is expected to be robust. From some aspects, the skies may seem encouraging for the aerospace industry. However, despite the growing market, one cannot ignore the aftereffects of a trade war. Several market leaders in the industry have voiced their opinions over the high tariffs during trade wars.The rise of air travel, a backlog of new aircraft orders and the constant resurgence of business aircraft will further add to the growth of this market. The demand has proliferated in aerospace and showing immense capacity for growth in the commercial industry. The other thing triggering the market is manned spaceflight. The future of aviation will encompass tourism in earth's orbit, and have already seen many excited people booking space travels.

Liquidity –Stretched
Liquidity is stretched on the back of highly utilized bank facilities to the extent of 99% as on November 30, 2019. Current ratio stood moderate at 1.64 times as on March 31, 2019. Moreover Company doesn't have any major debt funded cap ex plans in FY 21 and FY 22.

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
Criteria for Short Term Instruments

About the company
Hyderabad based, Revathi Engineering Private Limited (REPL) was incorporated in the year 1982 as a partnership firm by Mr. Phanindra. The company is primarily engaged in manufacturing of high precision assemblies and components for the aerospace sector.

(Rs. crore)

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	4.15	1.71
PBILDT	NM	0.93
PAT	NM	0.08
Overall gearing (times)	1.26	1.80
Interest coverage (times)	NM	1.90

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-Cash Credit	-	-	-	3.00	CARE B+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	2.50	CARE B+; Stable / 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-Cash Credit	LT	3.00	CARE B+; Stable	-	1)CARE B+; Stable (16-Oct-18)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	2.50	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (16-Oct-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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Manish Kumar
Contact no: 040-67937415
Email: manish.kumar@careratings.com

Business Development Contact
Mr. Rakesh Raghuwanshi
Contact no: +91-40- 67937422
E-mail: rakesh.raghuwanshi@careratings.com

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 corporate 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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**