Robo Silicon Private Limited

October 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.36	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed; Outlook revised from Positive
Total Facilities	**50.36 (Rs. Fifty Crore and Thirty-Six Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Robo Silicon Private Limited (RSPL) continue to remain constrained by the volatility in the business operation, delay in execution of debt-funded capacity expansion project undertaken due to delay in receipt of regulatory approvals, exposure in investee company of True North Managers LLP (TNML), cyclic nature of real estate and construction sector along with vulnerability of business operation to regulation from different Government authorities. The rating also factors in subdued financial performance during FY20 (refers to period April 01 to March 31) with decline in revenue, profit level and cash accruals. The rating also factors in slowdown of business operation during the current fiscal due to impact of COVID 19 pandemic. The rating is, however, underpinned by the strong parentage with substantial shareholding by Private- Equity fund TNML, gradual penetration in the market with growth in business operation, reputed and diversified clientele base along with geographical presence in 5 states and satisfactory capital structure & operating cycle with cushion in bank borrowings. The following are the key rating sensitivities:

Positive: Factors that might lead to upgrade/Positive rating action

- Increase in total operating income to Rs.250.0 crore on a sustained basis
- Improved PBILDT margin to 10% and above on a sustained basis

Negative: Factors that might lead to downgrade/Negative rating action

- Decline in revenue and PBILDT margin to below Rs.100 crore and 5% respectively.
- Any unevisaged debt resulting in weakening of overall gearing ratio to 2.0x or above.
- Any additional liability on an account of disputed royalty payment.

Outlook: Stable

The revision in outlook from ‘positive’ to ‘stable’ reflects stable business operation during FY20 as against substantial expansion of scale and improvement in financial metrics projected for the year. Further, the company has not been able to derive benefits from the projects envisaged with delay in completion of capex as well as recovery of advances from associate entity.

Detailed description of the key rating drivers:

Key rating weaknesses

Volatility in business operations: RSPL operates on leased and owned mines with aggregate production capacity of 5.52 MMTPA. RSPL has been one of the early entrants in the market of artificial sand/m-sand manufacturing with the company commencing its operation in 2001 and marketing its product under the brand name of ‘RoboSand’. The concept emerged from the gradual depletion of the river sand and rampant illegal sand mining across the States. With a view to promote environment friendly product and improve the availability of sand for construction activities/RDC players, the company had promoted the product. It took a long time for company to gain acceptance and establish its foothold in the market and consequently, the company’s revenue and profitability has been volatile over the past years. It started improving since FY17. However, the company witnessed de- growth in revenue in FY20 due to non-operation of certain plants during FY20 due to some business challenges and overall slowdown in infrastructure space. The continued stability in the business operation is important for the growth of the company and improvement in credit profile.

Delay in implementation of debt funded capex undertaken: The company had undertaken capacity expansion project with setting up of three crushing units at Chennai, Nagpur and Bengaluru at an aggregate cost of Rs.22.0 crore. While, the Chennai unit has already commenced its operation since July 2018, the company had been facing challenges in obtaining regulatory approval for Nagpur and Bengaluru plant. As on October 2020, the company has incurred Rs.16.0 crore on capex. The company is expected to complete the project in current fiscal. However, timely completion of project without any further delay would drive the growth prospects.

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

Funds blocked in advances given to associate company: Given the delay in project implementation, the company had advanced some part of term loan disbursement taken for the project to one of its associate company. The company has not recovered the amount (Rs.8.0 crore pending out of Rs.10.0 crore) and has been charging interest on such advances. However, the same has resulted in blockage of funds with the associate company. The timely recovery of the advances would be crucial for the completion of the project.

Subdued financial performance during FY20: The total operating income of RSPL registered a de-growth of about 22% during FY20. The company witnessed regulatory and other business challenges in few states as a result of which either the operations were altogether stopped or the same was halted for time being. Consequently, the production was on lower side during FY20. The company had set up additional plants in southern state to compensate the revenue loss and also undertook trading activity to meet the requirements of the clients. In line with revenue, PBILDT margin and PAT margin also declined during FY20.

Pending dispute over royalty payment: The Company has contingent liability aggregating Rs.55.3 crore as on March 31, 2020 on account of disputed royalty/ seignorage fee on rough stone/boulders payable to State Government. While the company has been paying royalty as per its own calculation and the charges are disputed, any adverse outcome in the matter thereby resulting in liability on the company would have significant impact of the cashflow position and hence would be a key monitorable.

***Impact of COVID*-19-** The company had shut down its production unit across all plants for the period of March end- April 2020. The company gradually commenced its operation from May 2020. Albeit, the company had recommenced its operation, however, the plant had been operating at lower capacity during mid May 2020 due to issues w.r.t labour. The company had also availed moratorium for the period of March –August 2020

Cyclical nature of real estate & construction sector: The business of the company is dependent upon the growth in construction activities, particularly the real estate segment. Hence, the challenges associated with the cyclic nature of real estate and construction industry would have a bearing on the business operation and profitability of the company.

Key rating strengths

Experienced Promoters: RSPL was founded by Mr. C V Subba Rao and Mr. Vijay Kosaraju in December 1999. Subsequently, in 2009, True North Managers LLP (TNML), a Private Equity fund acquired major stake in RSPL which brought major changes in the board composition and management of the company. True North Managers LLP holds 76.71% of stake in RSPL (with total equity investment of Rs.145.37 crore) as on March 31, 2020. TNML was incorporated in 1999 under the name, India Value Fund Advisors Private Limited (IVFA), which is currently one of the major India centric private equity funds and later in January, 2017, IVFA rebranded itself as True North Managers LLP. TNML is a part of the Global PE Alliance which comprises leading local PE firms across different geographies and offers unique global reach, broad sector expertise, and leadership in mid-market private equity. TNML has built deep knowledge and skills in the Indian markets and has successfully launched six separate investment funds with a combined corpus of over US$ 2.8 billion including co-investments. The partners of TNML acquired the shareholding of TNML on closure of the fund backing the investment in RSPL.
RSPL has been receiving continuous funding and operational support from the P-E funds. The P-E fund has been investing funds in RSPL, as and when required, to finance the losses. However, with the business gradually becoming self-sustainable, the funding support has reduced.

Strategic location of plant and backward integration of raw material: The basic raw material for production of artificial sand and aggregates are granite and basalt rock boulders. The company has granite quarries under its name & subsidiary Robo Quarries Private Limited. All the production plants of RSPL have been linked to granite or basalt rock quarries.

Growing brand image and Reputed & diversified clientele: RSPL being the pioneer of the manufacturing sand in India, created a niche for itself in the market under the brand 'RoboSand.' and is gaining acceptance with major market players. In the past, too, the company has supplied for large sized projects viz. Reliance Jamnagar Refinery, GMR Hyderabad International Airport, Delhi International Airport construction of GMR Airport at Hyderabad. Presently, RSPL supplies to four key segments, i.e. RMC (Ready Mix Concrete), LSBI (Large & Small Scale Builders), Projects and Retail. It has a diversified client mix and comprises reputed names in the industry.

Moderate capital structure and operating cycle: Capital structure of RSPL remains moderate marked by marginal improvement of overall gearing to 1.10x as on March 31, 2020 vis-à-vis 1.18x as on March 31, 2019. However, post term debt availed for the capex which has been delayed, the other debt coverage metrics have weakened.

The operating cycle of RSPL remained at similar level of 22 days in FY20 (17 days in FY19). RSPL with a view to tackle market competition has streamlined the credit period they extend to the customers. The total collection period remained at 60 days during FY20 (43 days FY19). However, the company was also able to avail credit period of 60 days from its client. Further average capital utilization also remained at satisfactory level of 36%.

Industry outlook: Various State governments have imposed ban on sand mining such as Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Telangana & Uttarakhand etc and asked to shift to better alternative of river sand, Manufactured Sand (M-Sand). While the growth prospects considering the regulatory restrictions w.r.t river sand mining is robust, the near term outlook remains muted on account of slowdown in the infrastructure and real estate segment post covid 19 pandemic.

Liquidity: Stretched. The company reported reduced GCA in FY20 with subdued operational and financial performance. Further, the impact of covid 19 on business operations has also resulted in slowdown in the current fiscal. The company had taken debt for capex wherein term loan repayment has commenced whereas the capex is pending completion. This has also resulted in increased debt servicing. During FY19, RSPL had advanced ICD to an associate company which is also pending recovery. The company has opted for moratorium on debt servicing of term loan an interest on cash credit for the period of March –August 2020. However, the company has cushion in the working capital with average utilization at about 36% for past 12 months ending August 2020

Analytical Approach – Standalone. Further, the rating factors in operational, management & funding support from the P-E investors

Applicable Criteria
Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Factoring Linkages to Rating
CARE's methodology for Manufacturing Companies
Financial ratios-Non-Financial Sector
Liquidity analysis -Non-Financial Sector

About the company:
Robo Silicon Private Limited (RSPL) based at Hyderabad, Telangana, was incorporated on December 31, 1999, as a public limited company. Later, during 2008, True North Managers LLP (erstwhile India Value Fund Advisers Private Limited) LLP) acquired controlling stake of 76.71% and subsequently converted RSPL into a private limited company. The company is engaged in manufacturing of artificial sand branded as "RoboSand" with its crushing units spread across States of Telangana, Karnataka, Tamil Nadu, Maharashtra, Andhra Pradesh etc.
Apart from TNML, the other shareholders comprise founder promoters; Shri C.V. Subba Rao (Chairman), Shri Vijay K. Kosaraju (MD) and Shri Chandra Sekhar Rao who together hold 23.29% equity stake in the company.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	197.48	153.54
PBILDT	19.00	12.65
PAT	7.88	2.42
Overall gearing (times)	1.18	1.10
Interest coverage (times)	3.70	2.38

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

Covenants of rated instruments/facility: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

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	-	-	June 2023	31.36	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	19.00	CARE BB+; 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 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	31.36	CARE BB+; Stable	-	1)CARE BB+; Positive (01-Aug-19)	1)CARE BB+; Stable (12-Feb-19)	1)CARE BB; Stable (04-Jan-18)
2.	Fund-based - LT-Cash Credit	LT	19.00	CARE BB+; Stable	-	1)CARE BB+; Positive (01-Aug-19)	1)CARE BB+; Stable (12-Feb-19)	1)CARE BB; Stable (04-Jan-18)

Annexure 3: Detailed Explanation of covenants of rated instruments/facilities- N/A

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

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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