March 07, 2024

Rucha Engineers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	59.00	59.00	[ICRA]A- (Stable); reaffirmed
Long-term Fund-based – Term Loan	182.48	153.75	[ICRA]A- (Stable); reaffirmed
Short-term Non-fund Based Facilities	15.00	15.00	[ICRA]A2+; reaffirmed
Short-term – Unallocated Limits	13.52	27.25	[ICRA]A2+; reaffirmed
Total	**270.00**	**255.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings for Rucha Engineers Private Limited (REPL, or the company) continues to factor in the well-established track record of the company in the auto ancillary sector, its experienced team of promoters along with its deep-rooted relationships with original equipment manufacturers (OEMs). ICRA notes the moderation in operating profitability in FY2023 (OPBITDA margins of 5.0% in FY2023, compared to 7.5% in FY2022) due to higher input costs. However, the company has taken measures to improve product profitability as well as cost efficiency (such as total productive maintenance), which have resulted in an improvement in margins to 7.1% in 9M FY2024 (provisional financials). ICRA expects the operating margin to remain steady at 6.5-8.0% in FY2024.

ICRA also notes the healthy wallet share of REPL in the components supplied to OEMs, and the company's diversification efforts to expand its product and customer portfolios, which are expected to support revenue growth as well as diversification over the medium term. The company aims to increase its wallet share from a leading passenger vehicle (PV) OEM in the next few years, which would aid revenue growth as well as segmental diversification. REPL continued to demonstrate a fairly comfortable capital structure (with gearing of 1.3 times as on March 31, 2023) along with adequate coverage indicators (interest cover of 4.2 times) during FY2023.

The ratings, however, continue to remain constrained by the company's ongoing debt-funded capital expenditure (capex), which is expected to moderate its coverage metrics over the near to medium term. Return metrics also remain moderate, on account of the ongoing capex. While most of the sizeable capex has been incurred, generating commensurate returns from the same remains a key rating monitorable, going forward.

ICRA notes that the company continues to exhibit a high degree of customer concentration risk with 73% of revenues in FY2023 derived from its top three customers; although ongoing efforts to add new customers in automotive and non-automotive spaces should help mitigate this over the medium term. In line with the nature of the industry it operates in, REPL also remains vulnerable to the cyclicality in the automobile industry, although steps taken to diversify into non-automotive sectors would help mitigate this risk over the long term. ICRA also notes exposure of few of REPL's product offerings, such as exhaust systems, to the rising electrification in the automotive industry, although efforts undertaken by REPL to gradually adapt to the automotive electrification by setting up infrastructure that would cater to ICE vehicles as well as electric vehicles (EVs) provide comfort in this regard.

The Stable outlook on the long-term rating reflects ICRA's expectations that REPL will continue to benefit from the established track record of its promoters in the auto ancillary sector and maintain a stable business and financial risk profile.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record and relationships with OEMs – REPL's management has extensive experience in the auto ancillary business and enjoys established relationships with major auto OEMs in the domestic automotive space. Such established track record and repeat orders from its key customers provide REPL with sufficient revenue visibility and also augur well for its business development initiatives.

Healthy wallet share of components supplied to OEMs; diversification into new products and segments to support growth over the medium term – REPL enjoys a majority share of business in most of the components supplied to its key customers. It caters to several renowned OEMs in the passenger vehicle, two-wheeler and three-wheeler segments, enjoying healthy market share with its clients. Furthermore, the company's efforts to diversify into new products and segments along with increasing focus on exports are expected to support its revenue growth and diversification prospects over the medium term.

Improvement in operating margins, while financial profile remains comfortable – After witnessing a moderation in its operating profit margin (OPM) from 7.5% (FY2022) to 5.0% (FY2023) following input cost inflation, the cost optimization measures undertaken by the company in the present fiscal have led to an improvement in profitability (with OPM at 7.1% in 9M FY2024), with further gradual improvement envisaged over the medium term, aided by the company's focus on product categories that command higher premiums. Further, REPL's financial profile continues to remain fairly comfortable as reflected by its capital structure with gearing at 1.3 times as on March 31, 2023 (with expected gearing as on March 31, 2024 at 1.0-1.2 times). The coverage indicators also remain adequate, with interest coverage of 4.2 times, TD/OPBIDTA at 2.8 times (TD/OPBIDTA of 1.6-1.8 times in FY2024e), and NCA/TD of 25% as on March 31, 2023, following healthy accruals generation and stable profitability. While the company has sizable debt repayment obligations lined up over the near term, healthy accruals and adequate liquidity should help it in servicing its debt obligations in a timely manner.

Credit challenges

Ongoing debt-funded capex to influence cash flows in the near term – REPL plans to incur capex of ~Rs. 30-35 crore in FY2024, primarily towards capacity expansion and modernisation of plants. This capex would be funded through a mix of bank borrowings and internal accruals. The company's capex outlay for the period FY2022 and FY2023 remained sizeable, at ~Rs. 148 crore. While this capex is expected to further support REPL's business prospects going forward, it is likely to keep the debt levels elevated and influence the cash flows in the near term. In this context, generating timely and commensurate returns from these capex drives remains a key rating monitorable. ICRA also notes the comfortable liquidity position of REPL which enabled the company to undertake a bullet repayment of Rs. 18.8 crore in the present fiscal, underlining the company's ability to meet the sizeable debt repayment obligations through steady accruals generation.

High customer concentration risk; vulnerability to the cyclicality in the automobile industry as well as electrification underway in the sector – REPL's top customer, viz. Bajaj Auto Limited (BAL), contributed 46% to its revenues in FY2023 (49% in 9M FY2024). Although the company has taken tangible efforts to diversify the customer base, the dependence on BAL for majority of revenues renders the business operations vulnerable to BAL's performance. Further, the business is susceptible to the inherent cyclicality associated in the automobile industry, especially in the three-wheeler industry. Nevertheless, REPL's focus on adding new customers and products, especially those in the non-automotive space, should help mitigate these risks to some extent over the medium to long term. While few of the product offerings from REPL, such as exhaust systems, may witness gradual decline in demand over the medium to long term amid emergence of automotive electrification, ICRA does note the steps undertaken by REPL, such as setting up manufacturing infrastructure that would cater to ICE vehicles as well as EVs, to mitigate the said risk to an extent.

Modest return indicators – With the input cost inflation impacting the profitability and sizeable capex undertaken impacting the asset turnover, REPL's return indicators have remained modest in the recent past. However, with a gradual recovery anticipated in profitability, and given that the majority of sizeable capex has now been completed, the return indicators are expected to demonstrate an improvement over the near to medium term (ROCE of 15-18% in FY2024e, over 7% in FY2023), backed by commensurate returns from recently undertaken capex initiatives.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by healthy cash flow from operations of Rs. 60-65 crore annually, and free cash and liquid investments of Rs. 14.7 crore as on March 31, 2023, along with unutilised bank lines, which stood at ~Rs. 4.7 crore as on December 31, 2023. Against these sources of liquidity, REPL's capex outlay is ~Rs. 35.0 crore for FY2024 and ~Rs. 25-30 crore per annum over the medium term, while the quantum of long-term debt repayment remains ~Rs. 57 crore for FY2024 and ~Rs. 30-40 crore per annum over the medium term. While the long-term debt repayment obligations remain sizeable for REPL, ICRA notes the comfortable accrual generation and moderate capex outlay over the near to medium term, which should aid the company in meeting its debt repayment obligations.

Rating sensitivities

Positive factors – Notable improvement in the profitability and coverage indicators while sustaining the scale of operations and ensuring adequate returns from the ongoing capex with further improvement in the liquidity position could lead to a rating upgrade. Specific credit metrics that could lead to an upgrade of rating include TD/OPBITDA below 1.8 times on a sustained basis.

Negative factors – A steep decline in revenues or weakening of performance of the company's key customers leading to strain on its cash flows, profitability or liquidity could trigger a rating downgrade. Inability to maintain adequate financial flexibility or lack of adequate returns or weakening of credit metrics such as TD/OPBITDA above 2.3 times on a sustained basis could be other negative factors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Components](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Rucha Engineers Private Limited.

About the company

REPL was established in 1998 at Waluj MIDC in Aurangabad (Maharashtra). It has press, fabrication as well as stamping facilities and manufactures chassis, chassis components, silencers, jacks, heavy duty sheet metal components, along with assemblies, chain cover, petrol tanks for two-wheelers, three-wheelers and passenger vehicles. It has a paint shop for surface coating (two-coat, single bake liquid painting). Its primary customers are BAL as well as reputed automobile OEMs like TVS Motors Limited, Tata Motors Passenger Vehicles Limited (rated [ICRA]AA(Stable)/[ICRA]A1+), and the Volkswagen Group (Skoda Auto Volkswagen India Private Limited; rated [ICRA]AA+(Stable)/[ICRA]A1+). The company operates 10 manufacturing facilities, across five locations in India. It also has a DSIR approved R&D centre and an in-house tool room for prototype designing of products.

Key financial indicators

REPL	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	1,052.8	1,368.6
PAT (Rs. crore)	17.7	4.3
OPBDIT/OI (%)	7.5%	5.0%
PAT/OI (%)	1.7%	0.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.3
Total Debt/OPBDIT (times)	2.1	2.8
Interest Coverage (times)	6.9	4.2

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: REPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					March 7, 2024	March 1, 2023	January 20, 2022 July 23, 2021	November 5, 2020
1	Term Loan	Long-term	153.75	139.40	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Cash Credit	Long- term	59.00	51.30	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non Fund Based	Short-term	15.00	NA	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
4	Unallocated	Short-term	27.25	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loan	Simple
Short-term Non-fund-based Facilities	Very Simple
Short-term – Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan – 1	Feb-2022	NA	Feb-2027	9.19	[ICRA]A- (Stable)
NA	Term Loan – 2	Feb-2022	NA	Feb-2027	5.69	[ICRA]A- (Stable)
NA	Term Loan – 3	Feb-2022	NA	Feb-2027	41.54	[ICRA]A- (Stable)
NA	Term Loan – 4	Feb-2022	NA	Feb-2027	18.80	[ICRA]A- (Stable)
NA	Term Loan – 5	Feb-2022	NA	Feb-2027	2.20	[ICRA]A- (Stable)
NA	Term Loan – 6	Dec-2017	NA	Sep-2028	4.14	[ICRA]A- (Stable)
NA	Term Loan – 7	Dec-2017	NA	Sep-2028	11.99	[ICRA]A- (Stable)
NA	Term Loan – 8	Dec-2017	NA	Sep-2028	6.13	[ICRA]A- (Stable)
NA	Term Loan – 9	Dec-2017	NA	Sep-2028	3.72	[ICRA]A- (Stable)
NA	Term Loan – 10	Sep-2021	NA	Oct-2030	45.00	[ICRA]A- (Stable)
NA	Term Loan – 11	Aug-2021	NA	Aug-2028	4.87	[ICRA]A- (Stable)
NA	Term Loan – 12	Aug-2021	NA	Aug-2028	0.31	[ICRA]A- (Stable)
NA	Term Loan – 13	Aug-2021	NA	Aug-2028	0.17	[ICRA]A- (Stable)
NA	Working Capital Facilities	NA	NA	NA	43.00	[ICRA]A- (Stable)
NA	Invoice Discounting	NA	NA	NA	16.00	[ICRA]A- (Stable)
NA	Letter of Credit	NA	NA	NA	3.00	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	12.00	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	27.25	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sahil Udani
+91 22 6114 3465
sahil.udani@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
yashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches