August 16, 2017

Real Growth Commercial Enterprises Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	21.00	[ICRA]D; revised from [ICRA]B+
Non-fund Based Limits	4.00	[ICRA]D; revised from [ICRA]B+
Total	**25.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised its long-term rating on the Rs. 25.00-crore[1]fund-based and non-fund based facilities of Real Growth Commercial Enterprises Limited (RGCEL)[2] to[ICRA]D (pronounced ICRA D) from [ICRA]B+(pronounced ICRA B plus).

Rationale

The rating revision is on account of instances of devolvement of letter of credit (LC) owing to RGCEL's stretched liquidity position. ICRA, however, takes note of the company's experienced promoters.

ICRA also notes that the Securities and Exchange Board of India (SEBI), vide its letter (reference no. SEBI /HO/ISD/OW/P/2017/18183) dated August 7, 2017, has published a list of 331 shell companies, as identified by the Ministry of Corporate Affairs, and RGCEL is also a part of the list. ICRA is in discussion with the company and will monitor developments in this regard.

Going forward, the company's ability to improve its liquidity position and service its debt in a timely manner will be the key rating sensitivity.

Key rating drivers

Credit strength

- **Experienced management provides a competitive edge** – The promoters have been involved in the steel-trading business for around a decade and have a thorough knowledge of the market.

Credit weaknesses

- **Stretched liquidity position leads to delays in debt servicing** – There have been recent instances of LC devolvement for more than 30 days owing to the company's stretched liquidity position.
- **Intense competition puts pressure on profitability** – The steel-trading business is highly competitive and fragmented in nature because of the presence of a large number of organised and unorganised players. Given the low investment required, the entry barriers have remained low, resulting in the entry of a large number of small-to-medium scale enterprises. This in turn has put pressure on profitability.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria
[Rating Methodology for Trading Companies]
[Policy on Default Recognition]

About the company
RGCEL was incorporated in 1995 under the name KRS Financials Pvt. Ltd. In 2001, it was taken over by the RG Group and its name was changed to Rajesh Projects & Finance Limited, which was subsequently renamed to Real Growth Commercial Enterprises Ltd. in January 2011. The company was involved in the development of commercial offices-cum-shopping complexes till 2007. It commenced trading in stainless steel sheets of various dimensions in January 2010 in Bhiwadi (Rajasthan).

In FY2017, RGCEL reported a net profit of Rs. 0.46 crore on an operating income (OI) of Rs. 284.04 crore, compared with a net profit of Rs. 0.89 crore on an OI of Rs. 245.42 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	245.42	284.04
PAT (Rs. crore)	0.89	0.46
OPBDIT/ OI (%)	1.90%	2.04%
RoCE (%)	9%	10%
Total Debt/TNW (times)	3.38	4.40
Total Debt/OPBDIT (times)	9.46	9.87
Interest coverage (times)	1.51	1.07
NWC/ OI (%)	22%	25%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S.No.	**Instrument**	**Current Rating (FY2018)**			**Chronology of Rating History for the past 3 years**		
		Type	**Amount Rated (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2017**	**Date & Rating in FY2016**	**Date & Rating in FY2015**
				August 2017	**August 2016**	**September 2015**	**July 2014**
1	Cash Credit	Long Term	21.00	**[ICRA]D**	**[ICRA]B+**	**[ICRA]B+**	**[ICRA]B+**
2	Letter of Credit	Long Term	4.00	**[ICRA]D**	**[ICRA]B+**	**[ICRA]B+**	**[ICRA]B+**

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	**Instrument**	**Date of Issuance / Sanction**	**Coupon Rate**	**Maturity Date**	**Amount Rated (Rs. crore)**	**Current Rating and Outlook**
	Cash Credit*	-	-	-	21.00	[ICRA]D
	Letter of Credit	-	-	-	4.00	[ICRA]D

*****Out of Rs. 21 crore 6 crore is interchangeable to LC

Source: RGCEL sanction letters

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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.

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