Real Growth Commercial Enterprises Limited

July 05, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	21.00	21.00	[ICRA]B-(Stable); upgraded from [ICRA]D
Non-fund based limits	4.00	4.00	[ICRA]B-(Stable); upgraded from [ICRA]D
Total	**25.00**	**25.00**	

Rating action

ICRA has upgraded the long-term rating from [ICRA]D (pronounced ICRA D) to [ICRA]B- (pronounced ICRA B minus) for the Rs. 25.00-crore[1] fund-based and non-fund based limits of Real Growth Commercial Enterprises Limited (RGCEL)[2]. The outlook on the long-term rating is 'Stable'.

Rationale

ICRA's rating upgrade factors in regularization of debt repayments by RGCEL over the past three months. The rating draws comfort from the promoters' extensive experience in the business, improvement in cash accruals in FY2018 and the company's minimal exposure to the raw material price risk, due to low inventory levels and partially order-backed procurement followed by the company. ICRA notes that company was identified as Shell company by Securities and Exchange Board of India (SEBI) in August 2017, the status of the same has been reinstated to an operational company by SEBI again in February 2018 after the company complied with the requirements prescribed by SEBI.

ICRA's rating however, remains constrained on account of RGCEL's presence in a highly competitive industry characterised by the presence of a large number of organised and unorganised players, which has resulted weak profitability. The rating also takes into account the company's elongated level of receivables, which has resulted in a tight liquidity position, as reflected in continuous high bank limit utilisation.

Going forward, the ability of the company to improve its scale of operations in a profitable manner while maintaining optimal working capital intensity thereby resulting in continued regular debt servicing will be the key rating sensitivities.

Outlook: Stable

ICRA believes that RGCEL would continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability and efficient working-capital management strengthen the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if stretched working-capital cycle weakens the liquidity.

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[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*

Key rating drivers

Credit strengths

Experienced management lends competitive edge – RGCEL's management has experience of more seven years in trading of steel sheets. Over the years, the promoters have gained a thorough knowledge of the markets. A long-term presence in the industry has helped the company establish relationships with several suppliers and customers.

Regularisation in debt repayment– The company has been regular in making debt repayment to its lenders in the last three months owing to better liquidity position.

Established relationship with key customers ensures repeat orders -The customers of the company include traders and manufacturers of different types of iron products. The company has well-established relationships with several customers as is demonstrated by repeat orders from the same

Credit challenges

Intense competition, given the low entry barriers- With the low entry barriers in the iron/steel trading business the company faces competition from both organised and unorganised players which leads to pricing pressures. With limited product differentiation and the limited bargaining power with customers, RGCEL tries to compete by providing similar quality of products as offered by other players at a lower price.

Weak financial risk profile - The financial risk profile remains weak with low profitability, high gearing and weak debt protection metrics.

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

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).

RGCEL reported a net profit of Rs. 0.97 crore on OI of Rs. 198.95 crore in FY2018 compared with a net profit of Rs. 0.88 crore on OI of Rs. 284.04 crore in the previous year.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	284.04	198.95
PAT (Rs. crore)	0.88	0.97
OPBDIT/OI (%)	2.03%	2.98%
RoCE (%)	11.54%	12.33%
Total Debt/TNW (times)	3.95	2.39
Total Debt/OPBDIT (times)	9.18	6.18
Interest Coverage (times)	0.96	0.97

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating July 2018**	**Date & Rating in FY2018 August 2017**	**Date & Rating in FY2017 August 2016**	**Date & Rating in FY2016 September 2015**
1	Fund based limits	Long Term	21.00	-	**[ICRA]B-(Stable)**	**[ICRA]D**	**[ICRA]B+**	**[ICRA]B+**
2	Non-fund-based limits	Long Term	4.00	-	**[ICRA]B-(Stable)**	**[ICRA]D**	**[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits	NA	NA	NA	21.00	[ICRA]B-(Stable)
NA	Non-fund-based limits	NA	NA	NA	4.00	[ICRA]B-(Stable)

Source: RGCEL

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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.

For more information, visit www.icra.in

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