January 20, 2022

Rucha Engineers Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, Fund based-Term loan	121.85	187.35	[ICRA]A-(Stable); reaffirmed / assigned
Long term, Fund based-Cash Credit	77.00	61.00	[ICRA]A-(Stable); reaffirmed
Short term – Unallocated Limits	0.15	21.65	[ICRA]A2+; reaffirmed / assigned
Total	**199.00**	**270.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the established track record of Rucha Engineers Private Limited (REPL or the company) in the auto ancillary sector, the experienced team of promoters along with its established relationships with original equipment manufacturers (OEMs). ICRA also notes the healthy wallet share of REPL in the components supplied to OEMs, with the company's diversification plans to expand its product portfolio expected to support revenue growth over the medium term. The company continues to demonstrate a comfortable capital structure along (gearing of 1.0 times) with adequate coverage indicators (interest cover of 5.5 times) as on March 31, 2021.

The ratings, however, remain constrained by the sizeable debt-funded capital expenditure (capex) being undertaken by the company, which is expected to moderate REPL's coverage metrics and exert pressure on cash flows in the near term. Commensurate returns from the planned capex and optimal capacity utilisation remain key credit monitorables for REPL. The company continues to exhibit a high degree of customer concentration risk, although it plans to increase its customer diversification over the medium term. In line with the nature of the industry it operates in, REPL remains vulnerable to the cyclicality in the automobile industry. It also exhibits modest return indicators, on account of sizeable capex incurred recently and lined up over the near term.

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. The efforts undertaken by the company to add more diversified products in its product portfolio and reduce its dependence over a single customer by increasing the revenue share from other customers are expected to drive future revenue growth, while ensuring higher product and customer diversification over the medium term.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record and relationships with OEMs – REPL's management has an extensive experience in this line of 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.

Healthy wallet-share within the components supplied to the OEMs; diversification into new products to support growth over medium term – REPL enjoys high share of business in most of the components supplied to its key customers. The company caters to several renowned OEMs and suppliers 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 are expected to support its growth prospects as well as reduce its dependence on a single largest client over the medium term.

Comfortable financial profile – The company's financial profile remains strong as reflected by its robust capital structure and adequate coverage indicators at present, supported by a steady increase in the cash accruals over the years. REPL's gearing stood at 1.0 times as on March 31, 2021 (0.8 times as on March 31, 2020). The coverage indicators remained healthy with interest coverage of 5.5 times (PY[1] – 5.1 times), TD/OPBIDTA at 2.4 times (PY – 2.3 times), and NCA/TD of 30% as on March 31, 2021 (PY – 33%) following improved profitability in FY2021 and moderate rise in overall debt level as on March 31, 2021. While the company has sizable debt repayment obligation in the next two years, healthy accruals and adequate liquidity should help it in servicing its debt obligations in a timely manner.

Credit challenges

Ongoing debt-funded capex to exert pressure cash flows in the near term; commensurate returns from the capex with optimal capacity utilization remains to be seen – The company plans to incur capex of ~Rs. 75 crore in FY2022, primarily towards capacity expansion and modernisation of plants. This capex would be funded through a mixture of bank borrowings and internal accruals. While this capex is expected to further support the scale of operations and provide diversification benefits, the same is likely to increase the debt levels and exert pressure on the cash flows in the near term. REPL's ability to complete the envisaged debt-funded capex in a timely manner, scale up in a profitable manner by achieving optimal capacity utilisation levels and generate commensurate returns will be critical from the credit perspective.

High customer concentration risk; vulnerability to the cyclicality in the automobile industry – The company's top customer contributed ~45% to its revenues in FY2021. Although the company has taken tangible efforts to diversify the customer base, the top OEM remains the highest contributor to REPL's overall sales rendering the business operations vulnerable to the performance of its key OEM. Diversification of product as well as customer base with increase in revenues will elevate the risk to an extent, going forward. Further, the business is susceptible to the inherent cyclicality associated in the automobile industry, especially in the three-wheeler industry where the company has a substantial presence. Moreover, the company's revenue in the 3W segment is also vulnerable to risk of electrification though REPL's focus on new customers and products should mitigate the risk of electrification to an extent.

Modest return indicators – Slowdown in the automobile industry along with sizable capex undertaken by the company recently has pressurised asset turnover and, hence, resulted in modest return indicators. Given sizable capex in the coming year, overall asset turnover and return indicators are likely to remain modest in the near term.

Liquidity position: Adequate

REPL's liquidity is expected to remain adequate, evidenced by moderate cash and liquid investments of ~Rs. 14.2 crore, and sufficient buffer from the undrawn working capital facilities, which stood at ~Rs. 8 crore as on September 30, 2021. Although the quantum of debt repayment remains sizeable over the medium term (~Rs. 17 crore for FY2022 and ~Rs. 26-28 crore per annum for FY2023-FY2024), the accruals of REPL is expected to ensure timely debt servicing, going forward.

Rating sensitivities

Positive factors – Notable improvement in the profitability and coverage indicators while sustaining the scale of operations, ensuring adequate returns from the ongoing capex with further improvement in the liquidity position, supported by revival in demand from the automobile sector. Specific credit metrics that could lead to an upgrade of rating include TD/OPBIDTA below 1.8 times and RoCE above 16.0% on a sustained basis.

[1] *Previous year*

Negative factors – Lower-than-anticipated revenues on account of persistent slowdown in the industry or weakening of performance of its key customers leading to strain on 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 due to the ongoing debt-funded capex could be other negative factors. Specific credit metrics that could lead to a rating downgrade include TD/OPBIDTA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements 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-wheeler, three-wheeler and four-wheeler vehicles. It has a paint shop for surface coating (two-coat, single bake liquid painting). Its primary customers are Bajaj Auto Limited (BAL) as well as reputed automobile OEMs like TVS Motors Limited and the Volkswagen Group. The company operates 10 manufacturing facilities, across five locations in India. It also has a DSIR approved R&D centre and in-house tool room for prototype designing of products.

Key financial indicators

REPL	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	844.6	583.0
PAT (Rs. crore)	6.0	9.0
OPBDIT/OI (%)	4.9%	9.0%
PAT/OI (%)	0.7%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.9
Total Debt/OPBDIT (times)	2.3	2.4
Interest Coverage (times)	5.1	5.5

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					January 20, 2022 July 23, 2021	November 5, 2020	November 19, 2019	December 17, 2018
1	Term Loan	Long-term	187.35	93.58	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)
2	Cash Credit	Long-term	61.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)
3	Unallocated	Short-term	21.65	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Non Fund Based	Short-term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Term Loan	Simple
Long Term – Fund Based / Cash Credit	Simple
Short Term – Unallocated	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, is available on ICRA's 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	Term Loan 1	April 2020	NA	March 2027	11.25	[ICRA]A- (Stable)
NA	Term Loan 2	April 2020	NA	March 2027	27.80	[ICRA]A- (Stable)
NA	Term Loan 3	April 2020	NA	March 2027	16.00	[ICRA]A- (Stable)
NA	Term Loan 4	April 2020	NA	March 2027	45.00	[ICRA]A- (Stable)
NA	Term Loan 5	April 2020	NA	March 2027	8.00	[ICRA]A- (Stable)
NA	Term Loan 6	April 2020	NA	March 2027	2.60	[ICRA]A- (Stable)
NA	Term Loan 7	April 2020	NA	March 2027	7.50	[ICRA]A- (Stable)
NA	Term Loan 8	April 2020	NA	March 2027	35.00	[ICRA]A- (Stable)
NA	Term Loan 9	April 2020	NA	March 2027	10.00	[ICRA]A- (Stable)
NA	Term Loan 10	April 2020	NA	March 2027	22.00	[ICRA]A- (Stable)
NA	Term Loan 11	April 2020	NA	March 2027	2.20	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	24.00	[ICRA]A- (Stable)
NA	Standby Line of Credit	NA	NA	NA	3.00	[ICRA]A- (Stable)
NA	Export Packaging Credit	NA	NA	NA	2.00	[ICRA]A- (Stable)
NA	Invoice Discounting	NA	NA	NA	16.00	[ICRA]A- (Stable)
NA	Invoice Discounting	NA	NA	NA	16.00	[ICRA]A- (Stable)
NA	Unallocated Limits (Short Term)	NA	NA	NA	21.65	[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

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