

May 11, 2021

Diva Ravi Agro and Founders Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	7.50	[ICRA]B+(Stable); Assigned
Fund-based – Term Loan	11.70	[ICRA]B+(Stable); Assigned
Non fund based Facilities	0.50	[ICRA]A4; Assigned
Total	19.70	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings consider Diva Ravi Agro and Founders Private Limited's (DRAFPL) promoters' experience of over two decades in the castings industry, which notwithstanding the limited operational track record of the company, provides support to its business risk profile. The ratings also consider DRAFPL's presence in the overseas markets, which not only provides comfort with respect to the business growth prospects, but also augurs well from the perspective of geographical diversification of addressable markets. The ratings are, however, constrained by the company's small scale of operations and its low net worth, which not only restricts its financial flexibility, but also affects its ability to withstand a prolonged period of a weak business environment. The ratings also remain constrained by the company's exposure to the cyclicity inherent in the end-user industry and susceptibility of DRAFPL's profitability arising from temporary mismatches in the prices of raw materials and finished products. As exports constitute a significant percentage of the turnover, the margins also remain exposed to fluctuations in foreign currency in the absence of any firm hedging mechanism. The ratings also consider the working capital-intensive nature of DRAFPL's operations emanating from high receivable days and high inventory days, which led to an elongated cash conversion cycle and negative free cash flows. The ratings also remained constrained by the company's adverse capital structure and likely deterioration of the same, going forward.

The Stable outlook reflects ICRA's belief that DRAFPL will continue to scale up its operations, supported by increased penetration of its product portfolio in the overseas markets.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – Notwithstanding the limited operational track record of the company, DRAFPL's promoters have over two decades of experience in the foundry industry through their Group company.

Sizeable exports sales mix lead to diversification of market/customer – Sizeable export sales of its DI pipe fittings (constituting ~60% of the overall sales) provide comfort with respect to the business growth prospects and augurs well from the perspective of geographical diversification of addressable markets.

Credit challenges

Small scale of operations with limited operational track record – DRAFPL's scale of operations remains small with an operating income of Rs.16.9 crore in FY2020 and an estimated Rs. 26.0 crore in FY2021. The small scale of operations and low net worth (Rs.6.9 crore as on March 31, 2020) restrict not only its operational and financial flexibility, but also constrains its ability to withstand a prolonged period of a weak business environment. The operational track record of DRAFPL remains limited as its commercial operations commenced from December 2018.

Profits remain exposed to cyclicity inherent in the end-user industry; margins remain volatile to raw material prices, end-product realisations and exchange rates – Cast iron and ductile iron being engineering materials, have a diversified range of applications like pipes, machines and automotive industry parts and hence the company remains exposed to demand cyclicity in these segments. Raw materials account for the major portion of the operational cost for foundry players, including DRAFPL, and are thus important determinants of profitability. As demand from the end-user industry is cyclical in nature, it is exposed to the margin risks arising from temporary mismatches in the prices of raw materials and the finished products, causing volatility in profitability and cash flows, although the company makes efforts to carry out procurement based on orders. With around 60% of its revenues derived from exports, the margins also remain exposed to fluctuations in foreign currency in the absence of any firm hedging mechanism.

Working capital intensive operations emanating from high receivable and inventory days – DRAFPL's operations are working capital intensive on account of its high receivable days and high inventory holding period, which stood at 93 days and 111 days, respectively as on March 31, 2020. Elevated receivable days along with sizeable inventory holding requirements led to an elongated cash conversion cycle. Consequently, the working capital intensity of the company, as reflected by net working capital relative to operating income (NWC/OI), remained high at 34.8% in FY2020.

Adverse capital structure; moderate debt protection metrics – Given the largely debt-funded capex done towards setting up the greenfield project of DRAFPL, its leverage remained high, resulting in an aggressive capital structure. ICRA notes that DRAFPL's gearing is expected to increase from 1.6 times as on March 31, 2020 to over 2 times as on March 31, 2021. Further debt-funded expansion capex, which is underway in the current fiscal and an expected increase in working capital borrowings to support the increased scale of operations, are likely to further deteriorate the capital structure. Debt protection metrics, as reflected by interest coverage, remained modest at 2.9 times in FY2020.

Liquidity position: Stretched

DRAFPL's liquidity is **stretched** due to its long cash conversion cycle, which in turn resulted in negative free cash flows and a corresponding high utilisation of its fund-based limits. DRAFPL's month-end utilisation levels of working capital facilities exceeded 95% of its sanctioned limits during January and February 2021, leading to a low liquidity headroom.

Rating sensitivities

Positive factors – Ability to scale up operations while maintaining an adequate liquidity profile through efficient working capital management may lead to ratings upgrade. The specific trigger for upgrade would be TOL/TNW below 2.5 times on a sustained basis.

Negative factors – Pressure on DRAFPL's rating could arise if there is a sustained deterioration in profits, leading to weakening of coverage metrics and liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Incorporated in 2008, Diva Ravi Agro and Founders Private Limited, manufactures cast iron and ductile iron. The company started its commercial operations from December 2018. The manufacturing unit of the company is located at Burdwan, West Bengal with an installed capacity of 11,950 metric tonnes per annum (MTPA).

Key financial indicators (audited)

DRAFPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	2.0	16.9
PAT (Rs. crore)	0.6	0.6
OPBDIT/OI (%)	28.9%	23.9%
PAT/OI (%)	31.5%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.3
Total Debt/OPBDIT (times)	18.9	2.6
Interest Coverage (times)	2.2	2.9

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE B/Stable; ISSUER NOT COOPERATING	February 26, 2021

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 Jan 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 11, 2021			
1	Cash Credit	Long Term	7.50	--	[ICRA]B+(Stable)	--	--	--
2	Term Loan	Long Term	11.70	6.25	[ICRA]B+(Stable)			
3	Bank Guarantee	Short Term	0.50	--	[ICRA]A4			

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Working Capital Facilities	Simple
Fund-based – Term Loan	Simple
Non fund based Facilities	Very Simple

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 analyzing 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: 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	Cash Credit	--	NA	--	7.50	[ICRA]B+(Stable)
NA	Term Loan	FY2020	NA	FY2027	11.70	[ICRA]B+(Stable)
NA	Bank Guarantee	--	NA		0.50	[ICRA]A4

Source: Company

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

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