January 19, 2024

Reitz India 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	13.00	13.00	[ICRA]BBB+(Stable); reaffirmed
Short term – Non-fund based	40.50	40.50	[ICRA]A2; reaffirmed
Long term/Short term – Unallocated limits	1.00	1.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**54.50**	**54.50**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings of Reitz India Limited (REIL) factors in its healthy revenue growth and the expansion in profits and cash accruals along with expectation of the trend continuing in the near to medium term, evident from a growing order book position. The company reported healthy revenue growth along with higher profits, strong coverage metrics and a comfortable liquidity position in FY2023. The company's reasonable order book of ~Rs. 120 crore as of January 2024, a strong pipeline of orders (i.e., 0.6 times of FY2023 revenues) with a short execution timeline and the favourable order intake in FY2023 as well as the current fiscal following the expansion plans by select end-user industries provide near-to-medium-term revenue visibility.

The ratings favourably factor in REIL's established track record in the industrial fan industry, technical support from Konrad Reitz Ventilatoren GmbH, Germany (Konrad Reitz) that has an experience of over six decades, and its prominent brand position across the globe. The financial profile is healthy, characterised by a low gearing of 0.1 times as on March 31, 2023, and comfortable coverage indicators. The ratings consider the company's established relationships with reputed customers across the cement, steel, power and oil and gas industries, resulting in repeat orders over the years.

The ratings are constrained by high segmental concentration with majority of the revenues derived from customers in the cement industry, accounting for 71% of the total revenues. The receivable cycle remains elongated with ~18% of the receivables pending for more than 180 days as on March 31, 2023, though the company has made provision against the same to a certain extent. REIL's revenues and margins are vulnerable to intense competition in the industry and volatility in demand.

The Stable outlook on the long-term rating reflects ICRA's opinion that REIL's revenues and accruals will be supported by its comfortable order book along with expectations of a healthy order inflow in the near to medium term even as its collections would remain a key monitorable. Also, the company will continue to benefit from its established track record in the industrial fan industry.

Key rating drivers and their description

Credit strengths

Established track record in industrial fan industry and collaboration with Konrad Reitz – REIL has an established track record of over two decades in the industrial fan industry, catering to various industries and geographies. Konrad Reitz, its shareholder and one of the leading manufacturers of industrial fans in the world, provides manufacturing technology and technical expertise. REIL primarily caters to India, the UAE and Singapore and has developed strong competence, especially for products meeting the needs of the cement industry.

Reputed customer profile – The company manufactures customised products and has established relationships with reputed players, reflected in the repeat orders over the years. Its clientele includes leading players in the cement industry such as FL Smidth Ltd, UltraTech Cement Ltd, Shree Cement Ltd, Humboldt Wedag India Pvt Ltd, ACC Ltd, Ambuja Cement, etc, and other reputed players in the steel, power, and oil and gas segments. The domestic market accounted for ~66% of its revenues in FY2023. REIL also exports to markets such as the UAE and Singapore through its subsidiaries. The customer concentration is moderate with the top 10 customers accounting for 28% of the revenues in FY2023, which is mitigated by repeat orders.

Healthy revenue growth and favourable demand prospects, evident from healthy order book position – REIL witnessed a healthy scale-up in revenues to Rs. 208.07 crore in FY2023 from Rs. 173.86 crore in FY2022 on the back of a strong order inflow with the addition of customers across sectors and repeat orders. The company has a comfortable order book position of ~Rs. 120 crore as on January 01, 2024. Some high-value orders worth Rs. 100-125 crore are supposed to be added in the last quarter, which is expected to support its revenues, going forward. Also, the key players in the end-user industries, such as cement and steel, are undertaking expansion, factoring in the healthy medium-term demand growth prospects.

Comfortable financial risk profile – The company's financial profile is comfortable with low gearing of 0.1 times as on March 31, 2023, and the debt primarily comprising working capital borrowings. The coverage indicators are comfortable, reflected in interest coverage of 15.68 times (P.Y. 9.7 times), total debt/OPBITDA of 0.24 times (P.Y. 0.85 times) and NCA/total debt of 308% in FY2023. REIL's credit metrics and profitability indicators are likely to remain comfortable over the medium term with a healthy growth in revenues, profits and cash accruals, driven by favourable demand prospects and expansion to foreign markets.

Credit challenges

High segmental concentration – The company has high segmental concentration as majority of its revenues are derived from the cement industry. As per the current order book position, majority of the orders are from the cement industry, accounting for 51% of the total order book position, followed by the steel and aluminium industries. Going forward, the cement industry will continue to be the major revenue driver for REIL. Nevertheless, established relationships and repeat orders from its customers mitigate the risk of high customer concentration to an extent.

Higher receivables impacting cash flows – The company has significantly high receivables as payments for the previously executed orders got delayed because of delays in commissioning the respective projects. About 18% of the total receivables as on March 31, 2023, have been pending for more than six months. The company has made provisions to an extent and continues to focus on timely collections.

Exposed to intense competition in industry and volatility in demand – Despite REIL's established market position, it is exposed to intense competition in the industry with the presence of various organised and unorganised players in the industry. The demand is volatile owing to the cyclical nature of the capital expenditure and investments in the end-user industries, impacting the company's revenues and profitability, as witnessed in the past.

Liquidity position: Adequate

REIL has an adequate liquidity profile, reflected in the sufficient cushion in working capital limits and comfortable unencumbered cash balance of Rs. 17.01 crore as on March 31, 2023. The absence of any major repayment obligations is expected to support the company's liquidity position. However, a capex plan of Rs. 18 crore for expansion, which will be funded through internal accruals, may exert some pressure on the liquidity, although it will continue to be comfortable.

Rating sensitivities

Positive factors – ICRA could upgrade REIL's ratings if the company shows a significant scale-up of operations along with a diversification in the end-user industry and improvement in profitability and net worth on a sustained basis.

Negative factors – ICRA could downgrade REIL's ratings if the revenues or profitability declines, resulting in a significant reduction in cash accruals. Any elongation in the working capital cycle weakening the liquidity will also affect ratings. Additionally, an interest coverage of less than 4.0 times, on a sustained basis, may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

REIL, incorporated in 1998 as Reitz Turbovent Ltd, is a 50:50 Indo-German joint venture between Konrad Reitz Ventilatoren GmbH, Germany, and Mr. Prasad Rao and his family members. In FY2021, Reitz Holding GmbH & Co KG sold its stake to Mr. Prasad Rao and his family members, and the stake of Reitz Germany reduced to 11.9% from 50%. REIL is involved in manufacturing industrial fans, catering to diverse industries such as cement, steel, oil and gas, power, fertilisers, and chemicals. Konrad Reitz, which is one of the leading fan manufacturers in Germany, provides technological support to REIL. REIL's manufacturing facility is at Patancheru, Hyderabad, with regional offices in Bengaluru, Chennai, Kolkata, Mumbai and New Delhi. Reitz Southeast Asia and Reitz Middle East are REIL's wholly-owned subsidiaries based in Singapore and the United Arab Emirates, respectively.

In FY2023, REIL reported a net profit of Rs. 17.61 crore on an OI of Rs. 208.07 crore compared with a net profit of Rs. 8.5 crore on an OI of Rs. 173.9 crore in FY2022.

Key financial indicators (audited)

REIL-Standalone	FY2022	FY2023
Operating income (Rs. crore)	173.86	208.07
PAT (Rs. crore)	8.46	17.61
OPBDIT/OI	8.78%	12.79%
PAT/OI	4.87%	8.46%
Total outside liabilities/Tangible net worth (times)	1.07	0.82
Total debt/OPBDIT (times)	0.85	0.24
Interest coverage (times)	9.70	15.68

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

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	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 19, 2024	Nov 25, 2022	Oct 07, 2021	Jul 28, 2020
1	**Cash credit**	Long Term	13.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**
2	**Non-fund based facility**	Short Term	40.50	-	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A3+**	**[ICRA]A3+**
3	**Unallocated limits**	Long Term /Short Term	1.00	-	**[ICRA]BBB+(Stable)/ [ICRA]A2**	**[ICRA]BBB+(Stable)/ [ICRA]A2**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based	Very Simple
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 I: 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 facility	NA	NA	NA	13.00	[ICRA]BBB+ (Stable)
NA	Non-fund based facility	NA	NA	NA	40.50	[ICRA]A2
NA	Unallocated	NA	NA	NA	1.00	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: *Company*

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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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