

Rajda Sales (Calcutta) Pvt. Ltd.

February 18, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limit – Cash Credit	1.50	1.50	[ICRA]B+ (Stable); Reaffirmed
Non-fund based Limit – Bank Guarantee	2.00	4.00	[ICRA]B+ (Stable); Reaffirmed
Fund-based Limit – Bills Discounting	10.00	9.00	[ICRA]A4; Reaffirmed
Unallocated Limits	5.00	4.00	[ICRA]B+ (Stable)/ [ICRA]A4; Reaffirmed
Total	18.50	18.50	

*Instrument details are provided in Annexure-1

¹Sub-limit of Cash Credit

²Sub-limit of Bank Guarantee

Rationale

The reaffirmation of the ratings takes into account Rajda Sales (Calcutta) Pvt. Ltd.'s (RSCPL) modest scale of current operations, its weak financial profile as reflected by low cash accruals, an aggressive capital structure and subdued level of coverage indicators, and high working capital intensity of the business that exert pressure on the liquidity position of the company. Moreover, the intensely competitive nature of the industry, characterised by the presence of a large number of players, keeps RSCPL's profitability under check. ICRA notes the company's high exposure to counterparty credit risk since credit risk is transferred by Reliance Industries Limited (RIL) to RSCPL in its del credere agent (DCA) business. However, an adequate risk management framework put in by the company, as also reflected by the fact that 89% of the receivables had an ageing of less than 30 days as of March 2018, provides some comfort.

The ratings, however, derive comfort from the long experience of the promoters in the polymer business as a DCA of RIL, and the company's established relationships with its clients, which help it secure repeat orders. The demand prospects for the polymers are favourable, given the growing demand of the end-user industries.

In ICRA's opinion, the ability of the company to scale up operations while improving its capital structure and coverage indicators would remain key rating sensitivities, going forward. Any significant increase in the working capital intensity of operations, which could adversely impact the liquidity position of the company, would remain a credit concern, going forward.

Outlook: Stable

ICRA expects that RSCPL will continue to benefit from the long experience of the promoters. The outlook may be revised to Positive if the company is able to scale up operations while improving its capital structure and coverage indicators. The outlook may be revised to Negative if there is any increase in the working capital requirement, which could adversely impact the liquidity position of the company.

Key rating drivers

Credit strengths

Long experience of promoters - The company is a DCA of RIL for polymer products since 1978 and for rubber products since 2015. It is also an indenting agent for various companies for selling polymers, chemicals, and plastic processing machines. Further, the company is involved in direct trading of chemicals.

Established relationship with clients - The company has a diversified client base, with its top five customers contributing 30-35% to the total sales in the past few years. Additionally, the company has been supplying polymers to its top customers for over 25 years and has established relationship with them, which helps the company in securing repeat orders.

Favourable demand outlook for polymers - The demand prospects for polymers are favourable given the growing demand from the end-user industries.

Credit challenges

Modest scale of current operations - The company's scale of operations continued to remain modest, notwithstanding a marginal increase witnessed in the top-line to Rs. 9.99 crore in FY2018 from Rs. 9.78 crore in FY2017, depicting a growth of ~2%.

Weak financial profile characterised by low cash accrual, an aggressive capital structure and subdued level of coverage indicators - Historically, the cash accrual of the company has remained low, given the modest scale of operations. The capital structure remained aggressive as depicted by TOL/TNW of 5.14 times (4.92 times as on March 31, 2017) as on March 31, 2018. High debt levels coupled with low profits kept the debt coverage indicators depressed.

High working capital intensity of business exerts pressure on liquidity - The company makes payments to RIL within a day and allows its customers a credit period of around 7-15 days but charges an interest on it. For trading business, the company gets a credit period of 30-60 days from the suppliers and allows the same to its customers. Accordingly, the working capital requirements remain high.

Exposure to counterparty risk - RSCPL sells polymers on behalf of RIL by placing the customers' orders with RIL and coordinating sale, dispatch and transportation of materials. Although the ownership of the goods is not transferred to RSCPL, the company guarantees payment to RIL on behalf of its customers. RSCPL makes payment for any polymer purchase immediately and collects the sales proceeds from the customers over a relatively longer period, which exposes the company to counterparty credit risk.

Intense competition amid presence of a large number of organised and unorganised players in the market - The company faces stiff competition from a large number of players supplying polymers, which limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins.

Liquidity position

The working capital intensity of business continues to remain high on account of high receivables. Moreover, the cash accruals from the business has also remained low given the modest scale of operations, which exert pressure on its cash flows. However, the company's liquidity profile is aided by low utilisation of fund-based limits and absence of any major debt repayment obligations.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Trading Companies
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial statements of the company

About the company

RSCPL was established in 1961 as a partnership firm and was converted into a private limited company in March 1974. The company is involved in the business of indenting, consignment sales, stock and trade of various organic and inorganic chemicals, solvents and intermediates. The company has been a DCA of RIL in the eastern region of India (West Bengal, Odisha, Bihar, Jharkhand and seven North East states) for distribution of polymer granules since 1978 and for rubber products since October 2015. In addition, the company is an indenting agent for Transpek - Silox Industry Pvt. Ltd., Anupam Colours and Chemicals Industries, Anupam Colours and Chemicals Industries Pvt. Ltd. etc. The company is also involved in direct trading of polymers and chemicals in the domestic market.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	9.78	9.99
PAT (Rs. crore)	0.44	0.70
OPBDIT/ OI (%)	16.46%	18.09%
RoCE (%)	13.48%	14.82%
Total Debt/ TNW (times)	1.99	2.12
Total Debt/ OPBDIT (times)	4.92	5.14
Interest Coverage (times)	1.41	1.83

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) March 31, 2018	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				February 2019	August 2017	-	March 2016	April 2015
1 Cash Credit	Long Term	1.50	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+	[ICRA]B+
2 Bank Guarantee	Long Term	4.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+	[ICRA]B+
3 Bills Discounting	Short Term	9.00	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4	[ICRA]A4
4 Unallocated Limits	Long Term/ Short Term	4.00	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B+ (Stable)/ [ICRA]A4	-	-	-

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	Cash Credit	-	-	-	1.50	[ICRA]B+ (Stable)
NA	Bank Guarantee	-	-	-	4.00	[ICRA]B+ (Stable)
NA	Bills Discounting	-	-	-	9.00	[ICRA]A4
NA	Unallocated Limits	-	-	-	4.00	[ICRA]B+ (Stable)/ [ICRA]A4

Source: Rajda Sales (Calcutta) Pvt. Ltd.

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