

May 21, 2019

RIKUN Manufacturing Private Limited: Rating of [ICRA]BB-(Stable) assigned

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Long term - Term loan	6.95	[ICRA]BB-(Stable) assigned
Fund based – Long term - Cash credit	1.50	[ICRA]BB-(Stable) assigned
Long term – unallocated limits	0.55	[ICRA]BB-(Stable) assigned
Total	9.00	

Rationale

The assigned rating factors in the long experience of RIKUN Manufacturing Private Limited’s (RMPL) promoter in integrated manufacturing operations. The rating also favourably factors in the presence of long-term contracts with its customers in home appliances and other industrial segment, providing revenue visibility over the near to medium term. However, the rating is constrained by the company’s small scale of operations as it commenced its operations recently in May 2018, and high customer concentration risk with almost entire revenues derived from top 2 clients. The rating is also constrained by intense competition in the component manufacturing business limiting its pricing flexibility. Besides, highly leveraged capital structure and higher TD/OBDITA are the other rating concerns.

Outlook: Stable

The Stable outlook reflects ICRA’s expectation that RMPL will benefit from the extensive experience of its promoters in the component manufacturing business. The outlook may be revised to Positive if there is substantial growth in revenue and profitability, and efficient working capital management which improves financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Experienced promoter in the integrated manufacturing businesses: RMPL was promoted by Mr. Muthu Sivan in May 2018. He has over three decades of experience in electronics manufacturing domain. He was previously working in Seagate LLC and Toshiba Corporation’s South Asia Pacific operations and served as Managing Director of Sanmina India Pvt Ltd.’s integrated manufacturing operations. He was responsible for setting up 10+ greenfield projects which are for components and end products manufacturing.

Long-term contract with major clients: RMPL secured long-term contracts (3-year contract) for component supply from its customers in home appliances and other industrial segment in December 2018 providing revenue visibility over the near to medium term. The contract also includes price escalation clauses safeguarding company’s margins from adverse raw material price fluctuation.

Credit challenges

Small scale of operations - RMPL commenced its operations in May 2018 and recorded sales of Rs. 7.72 crore in FY2019. However, in April and May 2019 the company derived revenues of ~Rs. 4.0 crore. Further, it is likely to derive almost entire portion of its revenues from top 2 customers resulting in high customer concentration risk.

Highly leverage capital structure: RMPL's gearing was 11.39 times as on March 31, 2019 mainly due to high interest-free unsecured loans from its promoters. However, it recently converted unsecured loan to an extent of Rs 2.0 crore into equity. The coverage ratios are weak with TD/OPBDITA at 22.45 times and NCA/Debt of 4% in FY2019.

Intense competition in component manufacturing business: The component manufacturing business is a highly competitive and fragmented industry. It faces intense competition from both organized and unorganized players which limits its pricing flexibility.

Liquidity Position:

The company is in the process of availing working capital funding from bank to an extent of Rs 1.50 crore and term loan of Rs 4.00 crore for purchase of additional machineries towards capacity expansion. RMPL's liquidity position is moderate with an unencumbered cash of Rs. 1.34 crore as on March 31, 2019 coupled with term loan repayment commencing only from April 2020.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements

About the company:

Incorporated in 2018 by Mr Muthu Sivan, RIKUN Manufacturing Private Limited (RMPL) manufactures metal and plastic components, metal stamped parts, and also has facilities for powder coating. Its supplies products majorly for manufacture of electronics, home appliances, safe & lock manufacturers. The manufacturing facility is in Oragadam, Chennai and spreads across 40,000 sft.

Key financial indicators (Audited)

	FY2019
Operating Income (Rs. crore)	7.72
PAT (Rs. crore)	0.10
OPBDIT/ OI (%)	7.22%
RoCE (%)	-
Total Debt/ TNW (times)	11.39
Total Debt/ OPBDIT (times)	22.45
Interest coverage (times)	83.68

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date and Rating May 2019	Date and Rating in FY2019	Date and Rating in FY2018	Date and Rating in FY2017
1	Term loan	6.95	6.95	[ICRA]BB-(Stable)	-	-	-
2	Cash credit	1.50	-	[ICRA]BB-(Stable)	-	-	-
3	Unallocated	0.55	-	[ICRA]BB-(Stable)	-	-	-

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	-	NA	-	1.50	[ICRA]BB-(Stable)
NA	Term loan	May 2019	NA	April 2023	6.95	[ICRA]BB-(Stable)
NA	Unallocated	NA	NA	NA	0.55	[ICRA]BB-(Stable)

Source: RMPL

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