June 27, 2019

Renaatus Procon Private Limited: [ICRA]BBB-; Outstanding; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	10.00	10.00	[ICRA]BBB-; Outstanding; Outlook revised to Positive from Stable
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure 1*

Rationale

The revision in rating outlook to Positive from Stable favourably factors in the commencement of operations in Renaatus Projects Private Limited's (RPPL) new plant from Q1 FY2019, resulting in an increase in the production capacity to 3,00,000 m^3 from 1,50,000 m^3 p.a. The capacity addition is expected to result in healthy scaling up of operations in the near term as well as improve its geographical footprint in southern Tamil Nadu and Kerala markets (existing plant is in Vellore catering mainly to northern Tamil Nadu market). Further, ICRA takes into consideration RPPL's diversified customer profile and its proximity to raw material sources. The rating notes the company's healthy profitability as reflected by its operating margin and RoCE of 19% and 42%, respectively, in FY2019. The rating factors in the promoters' established track record spanning over five decades in the construction industry and the benefits derived by RPPL by being a part of the Renaatus Group.

The rating is, however, constrained by RPPL's moderate scale of operations and the susceptibility of its operating margins to fluctuations in raw material prices. Further, the company's capital structure and coverage indicators are likely to remain moderate in the near term due to sizeable long-term loan availed for capex. The gearing and TOL/TNW stood at 1.4 times and 1.7 times, respectively, as on March 31, 2019 and is expected to increase marginally to 1.5 times and 1.8 times, respectively, in FY2020. Nonetheless, RPPL's capital structure is likely to improve thereafter on account of sustained cash accrual in the medium term. The rating is constrained by the vulnerability of its profitability and cash flows to the cyclicality inherent in the construction/real estate sector.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that the rating will be upgraded if the company, in the near term, is able to scale up its operations while sustaining the profitability. Healthy scaling up of operations remains important for an improvement in its net cash accruals, and thereby the financial risk profile, considering the commencement of term loan repayment from the current year. The outlook may be revised to Stable in case of any deterioration in profitability, lower-than-expected cash accruals or a strain on the working capital cycle, which weakens the liquidity profile.

Key rating drivers Credit strengths

Extensive experience of promoters in the civil construction business; strong track record of the parent - The promoters have over five decades of experience in the civil construction business and have been managing the business activities of RPPL. The Renaatus Group has an established track record in construction of multi-storeyed buildings for residential and commercial projects, hospitals, roads and bridges, irrigation projects amongst others. It shares extensive relationships with reputed players. Further, the Group's healthy operational profile resulted in a wide potential for customer leads, diversified customer base and availing of discount, while purchasing construction raw materials such as cement etc.

Healthy revenue growth likely to continue due to commencement of operations at the new plant - The company's operating income (OI) grew by 24% and 38% in FY2018 and FY2019, respectively, on the back of increased preference for AAC blocks from the construction space. With commencement of operations at its Tirunelveli facility, the revenue is likely to improve further. ICRA expects RPPL's revenue to increase by more than 50% in FY2020 and the same is expected to result in healthy near-term net cash accruals.

Proximity to major raw material sources - The major raw materials required for manufacturing of AAC blocks are fly ash, cement, limestone, gypsum and aluminium powder. The company sources fly ash from the thermal power stations in Chennai and Tuticorin, while cement is procured from established players in Tamil Nadu. With other raw materials like cement, lime and aluminium powder available domestically through its established supplier (traders) network, RPPL enjoys regular supply and savings in freight cost.

Credit challenges

Large debt-funded capital expenditure resulting in moderate capital structure and coverage indicators - RPPL's capital structure is stretched, as reflected by a gearing of 1.4 times as on March 31, 2019, on account of its debt-funded capex. The total capital expenditure for the new plant stands at Rs. 45 crore, which was funded through a term debt of ~Rs. 38 crore and the remaining through fresh equity and unsecured debt from promoters. The large debt-funded capital expenditure has impacted the company's capital structure. Nonetheless, its coverage indicators, as denoted by interest coverage ratio and Total Debt/OPBDITA, stood comfortable at 9.6 times and 3.0 times, respectively, in FY2019, on account of its healthy profitability.

Modest scale of operations limits scale of economies and financial flexibility - Even though the company witnessed considerable growth in scale during FY2016-FY2019, its scale of operations remains moderate due to moderate capacity and limited geographical reach. It faces stiff competition from organised AAC block manufacturers and from the new entrants, given the relatively moderate technical and capital requirements. However, the demand outlook for AAC blocks remains positive, owing to increased acceptance in the Indian market and benefits over conventional clay bricks.

Exposure to margin risks due to volatile raw material prices - The company's operating margins are exposed to fluctuations in raw material prices such as cement, gypsum and aluminium powder in absence of price escalation clauses in certain contracts. The real estate/construction industry is the key end-user for AAC-block manufacturers. Hence, RPPL's profitability and cash flows are likely to remain vulnerable to the inherent cyclical nature of these industries.

Liquidity position

RPPL's liquidity position is expected to remain comfortable due to its healthy working capital profile on account of low debtor and inventory days. The company generally sells on advance payments to customers, thereby resulting in limited requirement for working capital borrowing. However, its borrowing limits stood at only Rs. 2.84 crore resulting in relatively limited flexibility in case of any large contingent fund requirement. Moreover, its term loan repayments are scheduled commence from FY2020. With cash accruals expected to remain healthy, the company is likely to report a healthy DSCR in the near term.

Analytical approach

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

About the company

Incorporated in 2012, the company is involved in manufacturing of AAC blocks, bonding and tile adhesive and ready-mix plaster. Headquartered in Chennai, it operates out of its manufacturing plant in Vellore. The products include AAC blocks, reneplast ready-mix adhesive, renabond cement-based adhesive, concrete blocks etc. It is a part of Renaatus Group, which has other entities such as Renaatus pprjects private limited which undertakes civil construction contracts primarily for government agencies such as Tamil Nadu Housing Board (TNHB), Tamil Nadu Public Works Department (PWD), Tamil Nadu Slum Board (TNSB), Tamil Nadu Horticulture Development (TNHD), etc. The group expertises in construction of multi-storeyed buildings for residential and commercial projects, hospitals, roads and bridges, irrigation projects, hostels for educational institutions, etc

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	38.9	53.8
PAT (Rs. crore)	3.8	5.8
OPBDIT/ OI (%)	18%	19%
RoCE (%)	29%	42%
Total Debt/ TNW (times)	0.7	1.4
Total Debt/ OPBDIT (times)	1.0	2.9
Interest Coverage (times)	6.5	9.6

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs. crore)	Date & Rating in FY2020 June 2019	Date &Rating in FY2019 August 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -
Term Loan	Long-term	10.0	21.2	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)		

*only part amount rated

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	Long-term – Term Loan	Sept 2018	-	FY2029	10.0	[ICRA]BBB- (Positive)

Source: Renaatus Procon Private Limited

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About ICRA Limited:

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