November 09, 2021

Rajoo Engineers Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	13.90	13.90	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Cash Credit	18.00	18.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Export Packing Credit	(18.00)^	(18.00)^	[ICRA]A2+; Upgraded from [ICRA]A2
Total	**31.90**	**31.90**	

**Instrument details are provided in Annexure-1; ^ sublimit of cash credit*

Rationale

The rating upgrade factors in the robust improvement in Rajoo Engineers Limited's (REL/ the company) scale of operations in FY2021, driven by healthy demand for the company's plastic extrusion machines. Also, the outstanding order book of Rs. 98.06 crore as on September 19, 2021 (highest in the last four years), which is expected to be executed in the current fiscal, indicates that the company will be able to sustain the increase in scale of operations in the current fiscal as well. Further, the ratings continue to derive strength from the company's healthy financial risk profile, marked by comfortable capital structure and healthy debt coverage indicators. The ratings also positively factor in the three-decade long experience of the company's promoters in the plastic-extrusion machinery business; REL's wide-ranging product portfolio; and the competitive advantage arising from strong R&D capabilities and technological tie-ups with international entities, which enable access to the latest technology.

The ratings, however, remain constrained by REL's modest scale of operations and the intense competition from both domestic and foreign players, along with the cyclicality in the plastic products industry. The ratings are also constrained by the exposure of the company's profitability to adverse fluctuations in foreign exchange rates and the volatility in raw material prices, given the long manufacturing cycle and the fixed-price contracts.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company will be able to sustain the increase in scale of operations, while maintaining its healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive experience of management and established brand presence in plastic extrusion machinery industry - Established in 1986, REL is currently managed by Mr. R.N. Doshi, Ms. Khusboo Doshi, Mr. Utsav Doshi and Mr. Sunil Jain, who have extensive experience of more than a decade in the plastic extrusion industry. The promoters' technical experience and the strong R&D team, support REL in designing products in line with the customers' specifications along with cost efficiencies. The company's emphasis on continuous innovation and precision in manufacturing of extrusion machinery has enabled it to be considered among leading players in the plastic extrusion industry. REL also benefits from its tie up with reputed global and domestic players such as MEAF Machines BV (Netherlands), Bausano & Figli, Italy and Kohli Industries, India.

Healthy improvement in scale of operations - The company's operating income (OI) increased by more than 60% in FY2021 to Rs. 152.25 crore from Rs. 93.55 crore in FY2020 primarily due to higher demand for the plastic packaging products, which led to higher demand for the company's machines. Further, the outstanding order book of Rs. 98.06 crore as on September 19, 2021 (expected to be executed in the current fiscal), provides revenue visibility to the current fiscal. Further, REL's revenue stream is diversified, given its presence in both domestic sales and exports, which reduces the concentration to any specific geography. The contribution of exports to the total sales stood at ~50% in FY2021, compared to 61% in FY2020.

Healthy financial risk profile - Owing to low dependence on external debt, the company's capital structure continues to be comfortable as marked by a gearing of 0.04 times as on March 31, 2021. The company's debt coverage indicators also remained healthy as indicated by Total Debt/OPBDITA of 0.17 times, interest coverage of 19.02 times and NCA/TD of 459% in FY2021.

Further, better absorption of fixed overheads owing to the increase in scale, higher operational efficiency and lower outgo towards selling and other expenses, led to the improvement in the company's operating profitability in FY2021. The operating profit margin improved to 12.31% in FY2021 from 7.82% in FY2020. However, going forward, in the near term, the profitability is expected to be lower than FY2021 levels owing to the sharp increase in the raw material prices.

Credit challenges

Modest scale of operations, intense competition and vulnerability of cash flows to cyclicality in plastic products industry - Despite healthy improvement in the revenue in FY2021, the company's scale of operations remains modest. Modest scale of operations coupled with competition from organised as well as unorganised players in the domestic players as well as from leading foreign players, might put pressure on the company's performance. However, the company's long track record and technical tie-ups, mitigate the risk to some extent. On the other hand, the demand for plastic-extrusion machinery is linked to the capital-expenditure programmes of plastic products manufactures. Therefore, REL's cash flow remains vulnerable to investment plans of its customers, especially during an economic slowdown, when the customers may defer or postpone the capex plans.

Profitability susceptible to volatility in raw material prices and foreign exchange rates - The absence of any price-variation clause and the long manufacturing cycle expose REL's profitability to volatility in raw material prices. Thus, the company's ability to procure raw materials at competitive cost and pass on the price increase, if needed, to its customers is crucial to ensure its profitability. The order-backed procurement and the cost-based pricing provide some comfort. Also, the company's margins are exposed to volatility in foreign exchange rates; however, the company is involved in hedging some of its exposure. Further, exports receivables are naturally hedged against imports to a small extent.

Liquidity position: Adequate

The company's liquidity position is adequate owing to sufficient cushion in the working capital limits as evident from almost nil utilisation against sanctioned limits of Rs. 18.00 crore, over the 13-month period of August 2020 to August 2021. The liquidity position is also supported by healthy free cash and bank balances of Rs. 18.54 crore as on March 31, 2021. Furthermore, the long-term debt obligations of the company are low and expected to be nil by the end of this fiscal.

Rating sensitivities

Positive factors:

- Significant improvement in scale of operations along with improvement in profit margins
- Strengthening of net worth base along with improvement in working capital cycle and liquidity position

Negative factors:

- Substantial decline in scale of operations or weakening in profitability, leading to deterioration in key credit metrics
- Large debt-funded capex or stretch in working capital cycle adversely impacting liquidity profile and other key credit metrics; Total Debt/OPBDITA of 1.2 times or above on a sustained basis

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 company's standalone financial profile

About the company

Established in 1986, Rajoo Engineers Limited (REL) is promoted by Mr. C.N. Doshi and Mr. R.N. Doshi. It manufactures plastic-extrusion machinery at its plant in Veraval (Shapar), in the district of Rajkot, Gujarat. The promoters of REL have three-decade experience in the plastic-extrusion industry. This experience along with the requisite technical expertise helps REL to procure raw materials at competitive prices and continuously innovate in extrusion machineries. The company designs and manufactures machines and offers customised solutions as per customers' requirement. Its current product portfolio includes a wide range of extrusion machinery, including mono and multilayer-blown film lines, sheet-extrusion lines, thermoforming machines, non-woven fabric machines, polyvinyl chloride (PVC) pipeline machines, drip-irrigation machines and wooden-plastic composite (WPC) machines, which can process a wide range of polymers.

Rajoo Bausano Extrusion Private Limited (REBPL) – Joint Venture

To achieve proficiency in PVC pipeline machinery and develop wooden plastic composite (WPC) manufacturing machinery, REL entered into a joint venture with Bausano & Figli, Italy and formed Rajoo Bausano Extrusions Pvt Ltd. REL owns 49% shares of the said entity while the remaining shareholding is of Bausano & Figli.

Key financial indicators

	FY2020	FY2021
Operating Income (Rs. crore)	93.55	152.25
PAT (Rs. crore)	1.47	10.40
OPBDIT/OI (%)	7.8%	12.3%
RoCE (%)	4.5%	19.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9
Total Debt/OPBDIT (times)	1.1	0.2
Interest Coverage (times)	3.5	19.0
DSCR (times)	2.1	4.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

Status of non-cooperation with previous CRA: Not applicable

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 Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 09, 2021	Sep 28, 2020	Nov 26, 2019	Oct 03, 2018
1	Term Loan	Long-term	13.90	2.41	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long-term	18.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Export Packing Credit	Short-term	(18.00)	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Export Packing Credit	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 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	NA	~FY2022*	13.90	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	18.00	[ICRA]A- (Stable)
NA	Export Packing Credit	NA	NA	NA	(18.00)	[ICRA]A2+

* Company plans to clear all the outstanding term loans in the current fiscal

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

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About ICRA Limited:

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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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