September 28, 2020

Rajoo Engineers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	13.90	13.90	[ICRA]BBB+ (Stable); reaffirmed
Long-term Fund-based Cash Credit	18.00	18.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term Fund-based Export Packing Credit	**(18.00)#**	**(18.00)#**	[ICRA]A2; reaffirmed
Total	**31.90**	**31.90**	

**Instrument details are provided in Annexure-1; #Sub-limit of Cash Credit*

Rationale

The rating reaffirmation continues to reflect Rajoo Engineers Limited's (REL) healthy financial risk profile, characterised by adequate liquidity position, comfortable gearing and debt coverage indicators. The ratings also reflect the three-decade experience of the 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 operation and the ~25% revenue decline in FY2020 on a YoY basis because of the muted order inflows in H1FY2020 amid the uncertainty over the plastic ban in India. Moreover, the revenue was also impacted by the shutdown of facilities and logistic disruption caused by the nationwide lockdown in the second half of March 2020. However, the healthy demand of packaging products and the order inflow for the recently launched N-95 mask making lines – MASCON and FABREX, are likely to support the revenue in FY2021. The ratings also factor in the intense competition from both domestic and foreign players and the cyclicality in the plastic product industry. The ratings also take note of the exposure of the company's profitability to adverse fluctuations in foreign exchange rates and the volatility in raw material price, given the long manufacturing cycle and the fixed-price contracts.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that REL will continue to benefit from the company's established track record in the plastic-extrusion industry and the adequate experience of its promoters.

Credit strengths

Extensive experience of promoters – Established in 1986, REL is promoted by Mr. R.N. Doshi, Ms. Khusboo 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.

Established presence in plastic extrusion machinery - 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 Commodore LLC (USA), MEAF

Machines BV (the Netherlands), Bausano & Figli, Italy and Kohli Industries, India. The company exports its products to more than 60 countries such as the US, the UK, Russia, and Mexico. Export sales improved to ~Rs. 53 crore in FY2020 from to ~Rs. 29 crore in FY2019, forming ~61% of the total sales in FY2020 compared to ~24% in the previous fiscal.

Healthy financial risk profile- The capital structure continued to be healthy and improved in FY2020 because of low dependence on external borrowings, as evident from the gearing and TOL/TNW of 0.12 times as on March 31, 2020 compared to 0.25 times as on March 31, 2019. The debt protection metrics moderated in FY2020, owing to a decline in profitability, although it remained at comfortable levels—interest coverage of 3.51 times (6.26 times in FY2019) and TD/OPBDITA of 1.11 times in FY2020 (1.32 times in FY2019). Going forward, the capital structure and coverage indicators are expected to remain healthy, with expected improvement in margins and no major debt-funded capex plans.

Credit challenges

Modest scale of operation; profitability declines in FY2020: REL's scale of operations continues to remain modest—the revenue declined by ~25% to Rs. 93.55 crore in FY2020 from Rs. 122.46 crore in FY2019—owing to muted order inflow from the domestic market. The domestic demand was impacted by expected adverse policy changes on single-use plastic products, which led to execution deferment request from customers for orders in hand as well as sharp decline in fresh order inflows in the past 12 months. On the other hand, the delayed shipment of orders due to the shutdown of facilities amid lockdown, also impacted the revenue. The operating margin declined by ~400 bps to 7.8% in FY2020 from 11.6% in FY2019 due to lower absorption of operating expense and higher outgo towards selling expense. Nevertheless, sales and profitability are expected to slightly recover in FY2021, given the orders in hand (~Rs. 62 crore as on August 15, 2020) and order inflows envisaged due to rise in demand for packaged products. The company has achieved revenue of Rs. 24.6 crore in Q1FY2021 and is expected to report revenue of ~Rs. 95-100 crore by the end of FY2021.

Intense competition and vulnerability of cash flows to cyclicality in plastic products industry: REL faces competition from organised as well as unorganised players in the domestic players as well as from leading foreign players. However, the company's long track record and technical tie-ups with Commodore LLC, the USA, MEAF Machines BV, the Netherlands and Bausaon & Figle, Italy, Kohli Industries, India 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 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 does not have any formal hedging policy, which exposes its margins to volatility in foreign exchange rates. However, exports receivables are naturally hedged against imports to some extent.

Liquidity position: Adequate

Liquidity position is adequate, driven by the expected annual cash accrual of ~Rs. 8.00-9.50 crore in FY2021 and FY2022 against an annual debt repayment of ~Rs. 2.08 crore. Further, the undrawn working capital facility of Rs. 16.7 crore and the free cash and liquid investments of Rs. 8.9 crore as on March 31, 2020, strengthen its liquidity position. The company's working capital intensity remains high, driven by high inventory holdings (~300 days in FY2020). The high working capital requirements were primarily funded through internal accruals in the past. The average utilisation of working capital facility was moderate at ~52% in the past 13 months (August 2019 to August 2020).

Rating sensitivities

Positive triggers:
- Significant improvement in scale of operations along with increase in profit margins
- Strong of net worth base along with improvement in working capital cycle and liquidity position

Negative triggers:
- Substantial decline in scale of operations or erosion 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The assigned ratings are based on the issuer's standalone financial statements

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, Rajoo 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 (audited) - Standalone

	FY2019	FY2020
Operating Income (Rs. crore)	122.46	93.55
PAT (Rs. crore)	7.88	1.47
OPBDITA/OI (%)	11.60%	7.82%
ROCE (%)	14.08%	4.45%
Total Outside Liabilities/Tangible Net Worth (times)	0.93	1.09
Total Debt/OPBDITA (times)	1.32	1.11
Interest Coverage (times)	6.26	3.51
DSCR	4.19	2.08

Source: REL financials and ICRA research;

Key financial indicators (audited) -Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	131.74	98.89
PAT (Rs. crore)	8.05	1.53
OPBDITA/OI (%)	10.89%	7.33%
ROCE (%)	13.83%	4.40%
Total Outside Liabilities/Tangible Net Worth (times)	0.95	1.13
Total Debt/OPBDITA (times)	1.31	1.12
Interest Coverage (times)	6.27	3.46
DSCR	4.25	2.11

Source: REL financials and ICRA research;

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

All figures in Rs. Crore

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					28-Sept-20	26-Nov-19	03-Oct-18	20-Dec-17
1	Term Loan	Long Term	13.90	6.27^	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	18.00	1.86^	[ICRA]BBB+ (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

^Outstanding as March 31, 2020; Source: REL financials

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	Term Loan	FY2017	NA	FY2024	13.90	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	18.00	[ICRA]BBB+ (Stable)
NA	Export Packing Credit	NA	NA	NA	(18.00)	[ICRA]A2

Source: Rajoo Engineers Limited

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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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