

Rajoo Engineers Limited

December 20, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	0.00	13.90	[ICRA]BBB+ (Stable); Reaffirmed
Long-term Fund-based Cash Credit	19.50	18.00	[ICRA] BBB+ (Stable); Reaffirmed
Short-term Fund-based Export Packing Credit	(16.50)*	(15.00)*	[ICRA]A2; Reaffirmed
Total	19.50	31.90	

*Sub-limit of Cash Credit

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) on the Rs. 13.90-crore¹ term loans and the Rs. 18.00-crore cash credit facility of Rajoo Engineers Limited (REL or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) on the Rs. 15.00-crore fund-based of REL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmed ratings continue to reflect REL's healthy financial risk profile marked by adequate liquidity position, healthy return indicators and comfortable gearing and debt coverage indicators. The ratings continue to favourably take into account the longstanding experience of the promoters in plastic-extrusion machinery, REL's wide-ranging product portfolio and its competitive advantage arising from technological tie-ups with international entities providing access to the latest technology.

The ratings are, however, constrained by the exposure of the company's profitability to any adverse fluctuations in foreign exchange rates and volatility in raw material prices. The ratings also consider the increasing competition both from organised and unorganised players in the domestic market and import threat as well as the regulatory risks attached with the ban on plastic packaging.

Outlook: Stable

ICRA believes Rajoo Engineers Limited will continue to benefit from the long track record and extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of promoters and established presence in plastic-extrusion machinery: The established market position of the company and extensive experience of its promoters, who have been in the plastic-extrusion industry for close to three decades, results in a steady and repeat order flow from the customers. The same is also a result of strong in-house R&D team backed by the promoters' technical expertise, which helps REL in designing products in line with the customers' specifications along with cost efficiencies.

Healthy financial-risk profile: The return indicators have remained healthy in the past as reflected in the RoCE of 24.31% in FY2017 which improved on YoY basis following an improvement in profit margins. The financial-risk profile is supported by a low gearing of 0.16 times as on March 31, 2017 and above average debt-protection metrics due to healthy accruals and limited debt, with interest coverage and TD/OPBDITA at 13.14 times and 0.54 times, respectively, for FY2017. The pre-dominantly debt-funded ongoing capex is likely to result in an increase in its gearing levels and moderation in debt-coverage indicators in the near to medium term, however, overall they are expected to remain at comfortable levels.

Adequate liquidity: The overall liquidity position of the company remains comfortable, as reflected from healthy accruals against corresponding debt obligations and cushion on working capital limits, with average utilisation of ~50% for the past 12 months. (October 2016 – September 2017).

Credit challenges

Intense competition: REL faces competition from organised as well as unorganised players in the industry and import threat from Germany, Italy and China-based manufacturers. However, the company's long track record and technical tie-ups with Commodore LLC, USA, MEAF Machines BV Netherlands and Bausaon & Figle, Italy mitigate the risk to an extent.

Profitability susceptible to volatility in raw material prices: Absence of any price-variation clause and long-manufacturing cycle exposes REL's profitability to volatility in raw material prices. Thus, the ability of the company 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 cost-based pricing provide some comfort.

Vulnerability of cash flows to cyclicity in plastic-products industry: The demand for plastic-extrusion machinery is linked to the capital-expenditure programmes of plastic products manufactures. Therefore, REL's cash flows remains vulnerable to investment plans of its customers, especially during an economic slowdown when the customers may defer or postpone capex plans.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1986, Rajoo Engineers Limited (REL), promoted by Mr. C.N. Doshi and Mr. R.N. Doshi, is involved in manufacturing plastic-extrusion machinery at its plant located in Veraval (Shapar), in the district of Rajkot, Gujarat. The company designs and manufactures the machines and offers customised solutions as per customers' requirement. Its current product portfolio includes a wide range of extrusion machinery consisting of 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.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	106.86	111.38
PAT (Rs. crore)	4.57	6.41
OPBDIT/ OI (%)	9.22%	11.08%
Total Debt/ TNW (times)	0.18	0.16
Total Debt/ OPBDIT (times)	0.68	0.54
Interest Coverage (times)	22.19	13.41
NWC/ OI (%)	9%	10%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Date & Rating December 2017	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2017 December 2016	Date & Rating in FY2016 September 2015	Date & Rating in FY2015 February 2014
1 Term Loan	Long Term	12.89	2.90	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)
2 Cash Credit	Long Term	18.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable)
3 Export Packing Credit	Short Term	(15.00)*	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3

*Sublimit of Cash Credit

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	November 2017	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	(15.00)	[ICRA]A2

Source: Rajoo Engineers Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Suprio Banerjee

+91 22 6114 3443
supriob@icraindia.com

Sanket Thakkar

+91 79 4027 1528
sanket.thakkar@icraindia.com

Mayank Agrawal

+91 79 4027 1514
mayank.agrawal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-3341580 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 66069999

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