

Rajoo Engineers Limited

October 03, 2018

Summary of rated instruments

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	(15.00)*	(18.00)*	[ICRA]A2; reaffirmed
Total	31.90	31.90	

*Sub-limit of Cash Credit

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for 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) for the Rs. 18.00-crore fund-based export packing credit of REL. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation continues to reflect REL's healthy financial risk profile, characterised by adequate liquidity position, healthy return indicators and 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, continue to be constrained by the exposure of the company's profitability to adverse fluctuations in foreign exchange rates and volatility in raw material prices. The ratings also factor in the intense competition from both organised and unorganised players in the domestic market; the import threat; as well as the regulatory risks associated with the ban on plastic use.

Outlook: Stable

ICRA believes Rajoo Engineers Limited will continue to benefit from the company's established track record in plastic-extrusion industry and the adequate experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen 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 the three-decade long experience of its promoters—Mr. R. N. Doshi, Mr. Sunil Jain and Ms. Khushboo Doshi—in the plastic-extrusion industry result in steady and repeat order flow from the customers. Moreover, the strong in-house R&D team, which is backed by the promoters’ technical expertise, also helps REL in designing products in line with the customers’ specifications along with cost efficiencies.

Healthy growth in operating income and improvement in profit margins: The operating income of REL witnessed healthy growth of ~30% in FY2018 to Rs.145.38 crore from Rs.111.38 crore in FY2017 on the back of healthy order inflow of thermoplastic extrusion machineries during the year. The operating margins improved to 14.51% in FY2018 from 11.09% in FY2017 to 14.51% in FY2018, owing to growth in value-added products and reduction in overall selling expenses.

Healthy financial risk profile: The return indicators have remained healthy in the past as reflected in the RoCE of 30.17% in FY2018, which improved on YoY basis, following an improvement in profit margin. The financial risk profile is supported by a low gearing of 0.25 times as on March 31, 2018, and strong debt-protection metrics—the interest coverage and TD/OPBDITA were 21.35 times and 0.71 times, respectively, in FY2018.

Adequate liquidity: The overall liquidity position of the company remains comfortable, as evident from the healthy accruals against the corresponding debt obligations and the cushion available in working capital limits, which were 45% utilised during the past 12 months (September 2017 - August 2018).

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, the USA, MEAF Machines BV, the Netherlands and Bausaon & Fige, Italy mitigate the risk to some extent.

Profitability susceptible to volatility in raw material prices: The absence of any price-variation clause and long manufacturing cycle exposes 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 cost-based pricing provide some comfort.

Vulnerability of cash flows to cyclicality 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:

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.

The operating income in REBPL also increased in FY2018 to Rs.33.63 crore from Rs.27.01 crore in FY2017 with increase in off take of WPC manufacturing machines. The operating margins improved to 12.82% in FY2018 from 8.80% in FY2017 due to lower raw material costs and increase in export incentive.

Key financial indicators (Audited) – Standalone

	FY2017	FY2018
Operating Income (Rs. crore)	111.38	145.38
PAT (Rs. crore)	6.26	12.06
OPBDIT/ OI (%)	11.09%	14.51%
Total Debt/ TNW (times)	0.15	0.25
Total Debt/ OPBDIT (times)	0.54	0.71
Interest Coverage (times)	13.42	21.35
NWC/ OI (%)	10%	13%

Key financial indicators (Audited) – Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	124.61	161.86
PAT (Rs. crore)	7.09	13.69
OPBDIT/ OI (%)	10.84	14.35%
Total Debt/ TNW (times)	0.15	0.23
Total Debt/ OPBDIT (times)	0.49	0.64
Interest Coverage (times)	14.52	23.29
NWC/ OI (%)	11%	14%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)^	Date & Rating October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					December 2017	December 2016	October 2015
1 Term Loan	Long Term	13.90	4.66	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Cash Credit	Long Term	18.00	10.23	[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

*Sublimit of Cash Credit

^Outstanding as on March 31, 2018; 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

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Sanket Thakkar

+91 79 4027 1528

sanket.thakkar@icraindia.com

Tanay Chhaya

+91 79 4027 1524

tanay.chhaya@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

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents