

November 26, 2019

## Rajoo Engineers Limited: Ratings reaffirmed

### 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	(18.00)*	(18.00)*	[ICRA]A2; reaffirmed
<b>Total</b>	<b>31.90</b>	<b>31.90</b>	

\*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 of operation, with a decline in revenue by ~16% in FY2019 and ~25% in H1FY2020 on a YoY basis. Further, the ratings also factor in the intense competition from both domestic and foreign players and the cyclical nature in the plastic products industry. The ratings also take note of the exposure of the company's profitability to adverse fluctuations in foreign exchange rates and 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 ESFPL will continue to benefit from the company's established track record in 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 hold an 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 global players such as Commodore LLC (USA), MEAF Machines BV (Netherlands) and Bausano & Figli, Italy. REL also entered into a strategic alliance with Kohli Industries to manufacture extrusion coating machines in FY2019. The alliance will benefit REL in expand its product range and support its future

revenue growth. The company exports its products to more than 60 countries such as the USA, the UK, Russia, and Mexico. Export sales contributed 24% to the total revenue in FY2019.

**Healthy financial risk profile-** The capital structure continued to be healthy due to low debt level and healthy net worth base as evident from the gearing and TOL/TNW of 0.29 times and 0.93 times as on March 31, 2019. The net worth has continued to grow on a sustained YoY basis, owing to healthy accretion to reserves. The net worth increased to Rs. 66.05 crore in FY2019 from Rs. 60.15 crore in FY2018. The debt protection metrics moderated in FY2019, owing to decline in profitability, although it remained at comfortable levels—interest coverage of 6.26 times (21.35 times in FY2018) and TD/OPBDITA of 1.32 times in FY2019 (0.71 times in FY2018). Going forward, the capital structure and coverage indicators are expected to remain healthy, provided there is no major debt-funded capex and steady generation of accruals.

## Credit challenges

**Moderate scale of operation in fragmented 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 & Fige, Italy mitigate the risk to some extent.

REL's scale of operations continues to remain modest—the revenue was Rs. 122.54 crore in FY2019. Moreover, the sales declined by 16% in FY2019 and 25% in H1FY2020 on a YoY basis owing to reduced demand from domestic and export 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 the sharp decline in fresh order inflows in the past 12 months. On the other hand, export demand was also affected by the global economic slowdown. The operating margin declined by ~300 bps to 11.59% in FY2019 from 14.51% in FY2018 due to lower absorption of operating expense and intense competition in the market. Nevertheless, sales and profitability are expected to recover in H2FY2020, given the orders in hand (~Rs. 60 crore as on October 31, 2019) and the revival in order inflows as the government shelved the blanket ban on single use plastic products in October 2019.

**Profitability susceptible to volatility in raw material prices:** 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.

**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 flow remains vulnerable to investment plans of its customers, especially during an economic slowdown, when the customers may defer or postpone capex plans.

## Liquidity position: Adequate

Liquidity position is adequate, driven by the expected annual cash accrual of ~Rs. 7.50-9.00 crore in FY2020 and FY2021 against an annual debt repayment of ~Rs. 1.04 crore. Further, the undrawn working capital facility of Rs. 7.50 crore and free cash and liquid investments of Rs. 1.62 crore as on March 31, 2019, further strengthen its liquidity position. The company's working capital intensity remains high, driven by high inventory holdings (~154 days in FY2019). The high working capital requirements were primarily funded through internal accruals in the past. The average utilisation of working capital facility stood moderate at ~57% in the past 12 months (September 2018 to August 2019).

## Rating sensitivities

### Positive triggers –

- Significant improvement in scale of operations along with improvement in profit margins.
- Strengthening of net worth base and sustenance of healthy debt coverage indicators.
- Efficient working capital management.

### Negative triggers –

- Substantial decline in scale of operations or weakening in profitability due to increased competition or any adverse regulatory changes in plastic industry.
- Large debt-funded capex or stretch in working capital cycle adversely impacting liquidity profile and other key credit metrics (Total Debt/OPBDITA above 2.50 times).

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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

	FY2018	FY2019
Operating Income (Rs. crore)	145.38	122.54
PAT (Rs. crore)	12.06	7.88
OPBDITA/OI (%)	14.51%	11.59%
ROCE (%)	30.17%	14.08%
Total Debt/TNW (times)	0.25	0.29
Total Debt/OPBDITA (times)	0.71	1.32
Interest Coverage (times)	21.35	6.26
DSCR	18.02	4.19

Source: Company financials and ICRA research

### Key financial indicators (Audited) – Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	161.86	131.74
PAT (Rs. crore)	13.69	8.05
OPBDITA/OI (%)	12.87%	10.89%
ROCE (%)	32.22%	13.83%
Total Debt/TNW (times)	0.23	0.27
Total Debt/OPBDITA (times)	0.71	1.31
Interest Coverage (times)	20.88	6.27
DSCR	17.02	4.25

Source: Company financials and ICRA research

**Status of non-cooperation with previous CRA: Not applicable**

**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	FY2019	FY2018	FY2017
					26-Nov-2019	03-October, 2018	20-December, 2017	27-December, 2016
1	Term Loan	Long Term	13.90	8.37	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	18.00	10.46	[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 March31, 2019; 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](http://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](mailto:ravichandran@icraindia.com)

**Suprio Banerjee**

+91 22 6114 3443

[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Sanket Thakkar**

+91 79 4027 1528

[sanket.thakkar@icraindia.com](mailto:sanket.thakkar@icraindia.com)

**Tanay Chhaya**

+91 79 4027 1524

[tanay.chhaya@icraindia.com](mailto:tanay.chhaya@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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) 2556 0194/ 6606 9999

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