



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

R. R. Energy Limited

March 24, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities	25.02	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed
Short Term Non Fund Based Facilities	16.10	IVR A4+ (IVR A Four Plus)	Reaffirmed
Total	41.12		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of R. R. Energy Limited (RREL) continues to derive comfort from its experienced promoters, low off take risk owing to the presence of a long term Power Purchase Agreement. The rating also takes into account improvement in financial risk profile marked by improvement in revenue, debt protection metrics and capital structure in FY19. However, the rating strengths are continues to remain constrained by its exposure of its profitability to volatility in raw material prices and seasonality associated with availability of it, significant exposure in other loss making companies and working capital intensive operations. Further, the rating also considers moderation in its profitability in FY19 and expected moderation in scale of operations and profitability in FY20 due to weak market conditions.

Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to an improvement in liquidity on a sustained basis
- Sustenance of the capital structure
- Improvement in the operating cycle
- Realisation of arrear tariff from Chhattisgarh State Power Distribution Company Ltd

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Downward factor:

- Any deterioration in scale of operation or moderation in profitability affecting the liquidity on a sustained basis
- Further elongation of operating cycle
- Increased exposure to weak group companies
- Moderation in the capital structure with deterioration in overall gearing to more than 2x

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

The promoters of RREL are well established business families in their respective line of business. Mr. Rajendra Kumar Agrawal, Mr. S.C. Singhal and Mr. Amar Agrawal are the founders of the RK group of Chhattisgarh with business experience of over 26 years having diverse business operations in the field of coal trading, transportation and construction through various companies. The other promoters, Mr. Ashok Agrawal and Mr. Aman Agrawal exited the business during Q2FY18.

- **Low offtake risk owing to the presence of a long-term PPA**

RREL has signed a PPA with CSPDCL (Chhattisgarh State Power Distribution Company Ltd) for a period of 20 years which ensures off take of 13-MW of power generated in the 15MW biomass power plant. The PPA provides a fixed rate along with a variable rate which is decided time to time based on the variable costs. Further, the PPA also has a penal clause in case of termination of the contact by CSPDCL. Hence, assured PPA guarantees steady revenue.

- **Improvement in financial risk profile marked by improvement in revenue in FY19 and 9MFY20**

The total operating income of the company has grown manifold in FY19 to Rs.219.42 crore from Rs.86.73 crore in FY18 driven by higher sales of ferro-alloys in FY19.

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However, the EBITDA margin of the company moderated in FY19 from 21.24% in FY18 to 8.25% in FY19, due to increase in income derived from manufacturing of ferro-alloys, which fetches lower margin as compared to power sales. Further, during April 2018, there was a shut down in the power plant for issues in turbine which also affected the revenue and profit margin of the company. The power plant resumes operation from last week of April, 2018. However, with decline in finance charges attributable to repayment of debts, PAT margin has improved from 1.24% in FY18 to 1.97% in FY19. Moreover, gross cash accrual has also improved from Rs.8.60 crore in FY18 to Rs.11.93 crore in FY19. Further, total operating income stood at Rs.139.61 crore for 9MFY20.

- **Improvement in capital structure and debt protection metrics in FY19**

The capital structure of RREL continued to remain satisfactory marked by its comfortable gearing. Long term Debt equity ratio and overall gearing ratio has improved further from 0.50x and 0.89x as on March 31, 2018 to 0.20x and 0.54x as on March 31, 2019 respectively with accretion of profit to reserves and scheduled repayment of its term loan. The net worth stood healthy at of Rs.58.33 crore as on March 31, 2019. To arrive at the net worth, Infomerics has considered Rs.32.31 crore of unsecured loans from promoters and associates as quasi equity as the same is subordinated to the bank facilities. Further, the debt protection metrics as indicated by interest coverage ratio and Total debt/GCA has also improved from 1.88x and 5.27 years in FY18 to 2.45x and 2.66 years respectively in FY19 driven by reduced interest outgo, improvement in gross cash accruals and reduced debt level. Total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 1.39x as on March 31, 2019 (1.58x as on March 31, 2018). Going forward, Infomerics believes that the capital structure to remain comfortable as RREL has maintained a conservative capital structure and is planning to prepay all its long term debts upon receipt of arrear power charges.

Key Rating Weaknesses

- **Profitability exposed to volatility in raw material prices and seasonality associated with availability**

The performance of power division of RREL remains contingent on the availability of rice husk, which in turn, is exposed to a high degree of seasonality. In addition, the raw material prices and thereby the profitability of RREL remains vulnerable to the harvest of

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the crop in a given season. RREL procures rice husk generated from local rice mills. The coal required for running the power plant is generally of lower calorific value which is procured locally. Raw materials required for ferro-alloys production which include manganese ore, ferro-manganese slag, etc. are volatile in nature and the same exposes the company to input price fluctuation risk.

- **Significant exposure in other loss-making companies**

RREL had exposure of Rs.26.66 crore as on March 31, 2019 (Rs.46.78 crore as on March 31, 2018) in the form of investments (Rs.18.61 crore) and loans (Rs.8.05 crore) in its group/associate companies having weak credit profile. Excluding the said exposures the adjusted net worth stood at Rs.58.33 crore.

- **Working capital intensive operations**

RREL's operations are working capital intensive as a large part of its working capital remained blocked in its inventories. The inventory of the company mainly includes rice husk and slow-moving stock of fly ash bricks. RREL maintains a sizable stock of rice husk (raw material for power generation) due to seasonal availability of the same. Further, RREL holds stock of fly-ash bricks. The production of fly-ash bricks was stopped in 2015 due to subdued market demand and for the past three years the company is reducing the inventory based on opportunity based selling. In view of its high inventory period, the operating cycle of the company remained elongated in the past years. Further, the company collects the payment from CSPDCL within 45 to 80 days. The working capital requirements of the company is largely funded by long credit period availed from its creditors and bank borrowings. With regard to its ferro-alloys production, raw materials are procured against advance payment. The average collection period for ferro-alloys differs from client to client. For some clients the supply is done against advance payment, for some it is LC backed. The average cash credit utilization of the company remained moderate at ~84% during the past 12 months ended on December-2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)



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Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term characterized by sufficient cushion in expected accruals of ~Rs.12 crore as against its repayment obligations of Rs.8.50 crore in FY20. Further, With a gearing of 0.54 times as of March 31, 2019, the company has sufficient gearing headroom. The company has no major near term capex plan which imparts comfort. Further, its unutilized bank lines are adequate with about ~16% over the last 12 months ended on December 2019 to meet its incremental working capital needs over the next one year. Moreover, the company is expected to receive ~Rs.8 crore as arrear in next 3-6 months from CSPDCL as against revised tariff order which is expected to strengthen the liquidity further.

About the Company

R.R. Energy Limited (RREL), was incorporated on April 27, 2004 by Raigarh (Chhattisgarh) based Mr. Rajendra Kumar Agrawal and his brothers, Mr. S C. Singhal, Mr. Amar Agrawal and Bilaspur (Chhattisgarh) based Mr. Ramavtar Agrawal, Mr. Ashok Kumar Agrawal (brother of Shri Ramavtar Agrawal) and Mr. Aman Agrawal (son of Mr. Ramavtar Agrawal). RREL started its operation in 2007 with its 15MW bio mass (rice husk based) power plant located at Garhumaria, NH-200, Jharsuguda Road, Raigarh, (Chhattisgarh). To diversify its operations further, RREL commissioned a ferro-alloy (mainly ferro-manganese/silico-manganese) plant which commenced operation from July, 2013. Presently, brick manufacturing plant is not operational. RREL has executed a firm power purchase agreement (PPA) with Chhattisgarh State Power Distribution Company Limited for 20 years (started from March, 2016) for sale of 13MW power. The company is also registered with Ministry of New & Renewable Energy for receiving Renewable Energy Certificate (REC) units.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	86.73	219.42
EBITDA	18.42	18.09
PAT	1.08	4.33
Total Debt	45.34	31.67
Tangible Net worth	48.36	52.68
EBITDA Margin (%)	21.24	8.25
PAT Margin (%)	1.24	1.97



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Overall Gearing Ratio (x)	0.89	0.54
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*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	20.02	IVR BB+ /Stable	IVR BB+/Stable (February 20, 2019)	IVR BB/Stable (December 22, 2017)	-
2.	Term Loan	Long Term	5.00	IVR BB+ /Stable	IVR BB+/Stable (February 20, 2019)	IVR BB/Stable (December 22, 2017)	-
3.	LC	Short Term	14.00	IVR A4+	IVR A4 (February 20, 2019)	IVR A4 (December 22, 2017)	-
4.	BG	Short Term	2.10	IVR A4+	IVR A4 (February 20, 2019)	IVR A4 (December 22, 2017)	

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:



Infomerics Valuation And Rating Pvt. Ltd.

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	20.02	IVR BB+ /Stable
Long Term Fund Based Limits- Term Loan	-	-	Dec. 2020	5.00	IVR BB+ /Stable
Short Term Non Fund Based Limits- LC	-	-	-	14.00	IVR A4+
Short Term Non Fund Based Limits- BG	-	-	-	2.10	IVR A4+