

Press Release

Regaal Resources Pvt Ltd

January 03, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	115.00	IVR BBB- (CE)*/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)	Assigned
Total	115.00		

Details of Facilities are in Annexure 1

* CE rating based on shortfall undertaking of BMW Ventures Limited.

Detailed Rationale

The ratings assigned to the above bank facilities of Regaal Resources Pvt Ltd (RRPL) derives strength from the shortfall undertaking from BMW Ventures Limited (BVL) wherein BVL undertake to infuse additional funds in the form of unsecured loan whenever required to meet the interest and loan repayment obligation for the bank facilities sought by RRPL. This undertaking results in an enhancement in the rating of the said instrument to **IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)** against the **unsupported rating of IVR BB-/Stable** (IVR Double B Minus with Stable Outlook).

Further, the ratings also derives further strength from experienced promoters of RRPL, advantages arising from the location of its plant which is in proximity to maize cultivating regions, reputed customer base and adequate demand of the manufactured products. However, the rating strengths are partially offset by nascent stage of operations of RRPL with limited operational track record, susceptibility of margins to raw material price movement, intense competition in the starch industry, planned capex and RRPL's below average financial risk profile.

Key Rating Sensitivities:

- **Upward factors**

- Sharp increase in scale of operations of RRPL

- Profitable operations in RRPL with improvement in cash accruals on a sustained basis

- Improvement in the overall gearing ratio of RRPL

- Improvement in the credit profile of BVL

- **Downward Factors**

- Deterioration in the overall gearing ratio of RRPL to more than 4.5x

- Deterioration in credit profile of BVL

- Withdrawal of support extended to RRPL by BVL

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Strong credit profile of BVL**

The credit profile of BVL derives comfort from its above average financial risk profile marked by its continuous improvement in turnover, which ended at Rs. 1108.85 crore during FY19, satisfactory interest coverage ratio at 2.46x and moderate Total debt to GCA ratio at 9.25 years in FY19. Furthermore, the company has earned a healthy gross cash of Rs.14.25 crore vis-à-vis its debt repayment obligation of Rs.1.12 crore in FY19. Further, the company has a low debt repayment of Rs.1.59 crore in FY20. Moreover, the debt equity ratio of the company remained comfortable at 0.29x as on March 31, 2019 (0.45x as on March 31, 2018) and the total indebtedness as reflected by the TOL/TNW remained comfortable at 2.79x as on March 31, 2019 (2.86x as on March 31, 2018). BVL's credit profile also underpinned by its experienced promoters, association with reputed brands with a strong dealer network. However, the credit profile is constrained due to its thin profit margins in intensely competitive domestic market and cyclicity in the steel industry.

- **Experienced promoters**

The promoters, Kishorepuria family has over four decades of experience in the iron and steel trading business and has vast business experience. Other group companies of RRPL is engaged in various business streams like, Iron and Steel trading, Agricultural tools and equipment trading, steel fabrication, logistics and dealership of Tractor and accessories.

- **Advantages arising from RRPL's plant location which is in proximity to maize cultivating regions**

Maize is the primary raw material required by the company. The company's manufacturing unit lies in proximity to key maize cultivating regions in Bihar which ensures uninterrupted supply of raw materials and reduced raw material costs.

- **Reputed customer base of RRPL**

The company has a diversified customer which includes a host of established players in the FMCG sector.

- **Adequate demand of the products manufactured by RRPL**

The demand of starch and other related products are high within the country. India is the net importer of starch as the domestic supply doesn't meet the demand in India. The company

currently produces neutral starch which has application in industries like - textile, processed foods, pharmaceuticals, chemical, paper etc. On the other hand, Gluten is a high protein supplement uses for poultry feeds. Corn fibre uses of manufacturing cattle feeds and Germ are widely used to extract germ oil which has application in food industries.

Key Rating Weaknesses

- **Nascent stage of operations with limited operational track record of RRPL**

With operations commencing in September 2018, the company is in its nascent stage of operations. However, the company benefits from the longstanding entrepreneurial experience of the promoters having diversified businesses such as real estate, hotels, publishing, rice milling and trading.

- **Margins remain exposed to raw material price movement; intense competition in the industry**

Being an agro commodity, maize prices fluctuate in accordance with the demand and supply scenario, the monsoons and other agro-climatic conditions, as well as Government regulations prevalent in the industry. Apart, the company faces stiff competition from the other established players as well as small manufacturers in the industry, which limits its pricing flexibility and bargaining power with customers.

- **Planned capex in RRPL**

Though the main operation has been started from September 2018, the company has planned to implement few capex plans within the existing premises like enhancement in capacity by installing additional machinery to increase the production from 250TPD to 350TPD by FY21. The capex plan is mainly driven by high demand of its products. Apart from this, the company is also planning for expansion of finished goods stockyard, installation of another 2.8MW turbine for additional power requirements, expansion of existing Affluent Treatment Plant and installation of 10,000MT Silo for storing of raw materials. Envisaged cost of said projects is around Rs.57.0 crore to be funded by infusion of capital of around Rs.20.00 crore, Bank finance of Rs. 28.00 crore and Unsecured loan from promoters of Rs.9.00 crore. The project is expected to be completed by FY21. However, currently the capex plan is under planning stage and no significant amount has been incurred.

- **Below average financial risk profile of RRPL**

FY19 is the first year of operation where commercial production started from September 2019. During FY19, the company has earned a total operating income of Rs.45.05 crore and ended

up with a net loss of Rs.1.86 crore. However, during 7MFY20 the company has achieved a PBT of Rs. 6.07 crore turnover of Rs. 133.80 crore. Capital structure of the company remained leveraged marked by high long term debt-equity ratio and overall gearing ratio at 3.50x and 4.07x respectively as on March 31, 2019. However, interest coverage ratio remained comfortable at 2.06x, where total debt to GCA ratio was high at 33.94x during FY19. Current ratio was comfortable at 1.84 as on March 31, 2019.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of BVL, provider of shortfall undertaking to RRPL.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Rating Methodology for Manufacturing Companies

Rating of Structure Debt Transactions (Non securitisation Transactions)

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity - Adequate

The liquidity position of RRPL is expected to remain adequate in near term marked by its expected adequate cash accrual of Rs.8.31 crore vis-à-vis its repayment obligation of Rs.2.54 crore in FY20. However, use of internal accruals for capex may weakened the liquidity profile of RRPL. The average utilisations of RRPL remained at ~88% during the past 12 months ended on September, 2019 indicating a moderate liquidity buffer.

BVL has adequate liquidity marked by healthy cash accruals against negligible repayment obligations. Though the working capital utilisation remains high, its cash accrual is more than adequate to meet its incremental working capital needs over the next one year.

About Regaal Resources Pvt Ltd

Incorporated in 2012, Regaal Resources Pvt Ltd (RRPL) is promoted by the Kishorepuria family and is involved in manufacturing of maize based starch which finds applications in textile, processed foods, pharmaceuticals, chemical, paper and other industries. The manufacturing facility of the company is located at Kishanganj district in Bihar and has a total installed capacity of 250 tonnes per day (TPD). Apart from maize based starch, the company is also manufacturing other by-products of Maize processing, like Gluten, Fibre and Germ

(together contributing about 32% of total production). The company also has a 1.3MW captive power plant within the premises of the manufacturing unit.

RRPL is a part of the BMW Group having other group companies like, BMW Ventures Limited, BMW Logistics, BMW Enterprises etc. which are engaged in various business streams like, Iron and Steel trading, Agricultural tools and equipment trading, steel fabrication, logistics and dealership of Tractor and accessories.

The day-to-day operations of the company are looking after by Mr Anil Kishorepuria, Managing Director, along with other two directors and a team of experienced personnel.

Financials of RRPL (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019
	Audited
Total Operating Income	45.05
EBITDA	5.93
PAT	-1.86
Total Debt	99.74
Tangible Net worth	24.51
EBITDA Margin (%)	13.15
PAT Margin (%)	-4.12
Overall Gearing Ratio (x)	4.07

About BMW Ventures Limited

BVL, incorporated in October 1994 in Patna (Bihar), is a part of the BMW group formed by one Kishorepuria family of Patna, under the leadership of Mr. Bijay Kumar Kishorepuria, having more than four decades of experience in the iron and steel industry.

BVL is primarily engaged in distribution of long and flat steel products of TATA Steel Limited and sole distributor since last 35 years in Bihar. This apart, the company has taken dealership of Sonalika Tractors for Patna area. BVL is the flagship company of BMW group.

Currently, Mr. Bijay Kumar Kishorepuria (Managing Director) along with other six directors, who have more than two decades of experience in the iron and steel industry, are at the helm of affairs of the company and ably supported by experienced professionals.

Financials of BVL (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	820.10	1108.85
EBITDA	28.08	33.45
PAT	10.48	12.57
Total Debt	117.25	131.75
Tangible Net worth	47.58	60.15
EBITDA Margin (%)	3.42	3.02

For the year ended* / As On	31-03-2018	31-03-2019
PAT Margin (%)	1.28	1.13
Overall Gearing Ratio (x)	2.46	2.19

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

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.	Long Term Fund Based Limits – Term Loan (including proposed limit of Rs.35.50 crore)	Long Term	85.00	IVR BBB-(CE)*/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)	-	-	-
2.	Long Term Fund Based Limits – Cash Credit (including proposed limit of Rs.16.00 crore)	Short Term	30.00		-	-	-

** CE rating based on shortfall undertaking of BMW Ventures Limited*

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 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.

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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 – Term Loan (including proposed limit of Rs.35.50 crore)	-	-	March, 2027	85.00	IVR BBB- (CE)*/ Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)
Long Term Fund Based Limits – Cash Credit (including proposed limit of Rs.16.00 crore)	-	-	-	30.00	

* CE rating based on shortfall undertaking of BMW Ventures Limited