Roto Pumps Ltd

August 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action
Long term Bank Facilities	14.00 (Reduced from Rs. 30.00 crore)	IVR A-/ Credit watch with developing implications	IVR A-/Stable	**Reaffirmed and placed under credit watch with developing implications**
Long Term/Short Term Bank Facilities	30.00	IVR A-/ IVR A2+ Under credit watch with developing implications	-	**Assigned* and placed under credit watch with developing implications**
Short term Bank Facilities	2.50 (Reduced from Rs. 10.00 crore)	IVR A2+/ Under credit watch with developing implications	IVR A2+	**Reaffirmed and placed under credit watch with developing implications**
Total	**46.50 Rs. Forty Six Crore and Fifty Lakh Only**			

*reclassification from long term facilities to long term/short term facilities

Details of Facilities are in Annexure I

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Roto Pumps Ltd (RPL) continues to drive strength from the long track record of operations of the company, its geographically diversified revenue profile, comfortable operating profitability, healthy financial risk profile and comfortable liquidity position. These rating strengths were partially offset by the susceptibility of its profitability to fluctuation in foreign exchange, working capital intensive operations and competition from unorganized players. The ratings are placed under credit watch with developing implications on account of uncertainties in demand in its key overseas markets due to recent COVID pandemic. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward Rating Factors

- Growth in scale of operations on a sustained basis
- Further improvement in profit margin leading to improvement in liquidity

Downward Rating Factors

- Elongation in working capital cycle affecting the liquidity profile
- Weakening in the capital structure

Key Rating Drivers with Detailed Description

Key Rating Strengths

Long Track record of operations

RPL has been in business for around five decades. Long standing presence in the industry has helped the Company establish relationship with customers and suppliers, both in India and overseas. In India, the client base includes some of the most respected companies across a wide range of sectors including Reliance, Cadbury, Nerolac, Vedanta, NTPC, ONGC, EIL, Patanjali, Dabur, HPCL, BPCL, IOCL etc. to name a few. The consistent drive to build the brand all these years has helped the company to create a unique place in the market and our customers' minds.

Geographical diversification in revenue profile

The Company has a geographically diversified revenue profile. On the domestic front, RPL sells its products PAN India. In the overseas market, the Company sells its products across Australia & New Zealand, Africa, UK & Europe, USA, Middle East & South East Asia. A diversified geographical portfolio enables the company to spread its risk and reduces dependency on a Country.

Comfortable operating profitability

On, a standalone basis, the company achieved substantial growth in operating income of ~17% in FY19 and stood at Rs.127.76 crore from Rs.109.92 crore in FY18. The growth was driven by improvement in export sales which stood at Rs.85.43 crore in FY19 from Rs.71.88 crore in FY18. However in FY20, the operating revenue contracted to Rs. 121.02 crore driven by decline in export sales resulting from impact of COVID-19. The export sales stood at Rs. 77.24 crore in FY20. The EBITDA margin stood in the range of 18.20% to 22.70% whereas PAT margin was in the range 7.83% to 11.83% in past 3 years ending FY20.

On, a consolidated basis, the company achieved substantial growth in operating income of ~18% in FY19 and stood at Rs.135.04 crore from Rs.114.48 crore in FY18. The growth was driven by improvement in overseas sales which stood at Rs.92.69 crore in FY19 from Rs.77.22 crore in FY18. However in FY20, the operating revenue contracted to Rs. 132.63 crore driven by decline in overseas sales resulting from impact of COVID-19. The export sales stood at Rs. 88.18 crore in FY20. The EBITDA margin stood in the range of 16.58% to 22.36% whereas PAT margin was in the range 7.32% to 8.43% in past 3 years ending FY20.

Healthy financial risk profile

On a consolidated basis, the company has a healthy financial risk profile mainly on account of its net worth base of Rs.86.46 crore as on March 31, 2020 improved from Rs. 76.99 crore as on March 31, 2019 and borrowings to fund its working capital requirements. The long debt-equity and overall gearing ratio of the company stood at 0.02x & 0.20x as on Mar.31, 2020 vis-a-vis 0.03x & 0.34x as on March 31, 2019. Total indebtedness of the company as reflected by the TOL/TNW also improved from 0.68x as on March 31, 2019 to 0.47x as on March 31, 2020. The improvement was mainly on account of healthy accretion of profit to net worth.

On standalone basis, the company has a healthy financial risk profile marked by its comfortable net worth base with comfortable gearing ratio and TOL/TNW as on March 31,2020.

Good Technological abilities

The company is capable of manufacturing pumps using the latest available technology. It has state of the art principal manufacturing plant in Greater Noida which is designed to be a zero discharge unit to prevent water and land pollution. The facility is also equipped with a rooftop solar power plant that produces almost 15% of energy consumed by us, there reducing our carbon footprint. The company is an ISO 9001, 14001 & 18001 certified organisations.

Comfortable liquidity profile

RPL has a comfortable liquidity position as reflected in adequate expected accruals over the medium term as against small repayment obligations on vehicle loans. Further, the company's bank limits remained moderately utilized at an average of 54 per cent over the twelve months through June 2020.

Key Weaknesses

Working capital intensive operations

In order to remain competitive with other players in both the global and domestic market, the company needs to extend longer credit to its clients. On a consolidated basis, the average collection days has however improved but stood high at 80 days in FY20 whereas it was 87 days in FY19. The working capital cycle of the company stood high at 153 days and 140 days in FY20 and FY19. The same has remained elongated on account of the stretch in receivables and large inventory held by the company.

On a standalone basis, the average collection days has stood high at 95 days in FY20 and FY19. The working capital cycle of the company stood high at 166 days and 144 days in FY20 and FY19. The same has remained elongated on account of the stretch in receivables and large inventory held by the company.

Competition from unorganized players

The pump industry in India is highly fragmented; marked by the presence of a few big players and many small and mid-sized players. The company is thus exposed to intense competition from the unorganized players in the domestic market.

Profitability susceptible to volatility in foreign exchange risk

On a consolidated basis, in FY20, the company derived 66 per cent of its revenue through exports. Further, the company also meets part of its raw material requirement through imports, exposing it to risk arising out of fluctuation in foreign exchange. Though the company covers around 80 per cent of its forex exposure by entering into forward contracts, however the profitability of the company remains vulnerable to fluctuation in foreign exchange on account of the un-hedged portion.

On standalone basis, in FY20, the company derived 64 per cent of its revenue through exports. Further, the company also meets part of its raw material requirement through imports, exposing it to risk arising out of fluctuation in foreign exchange. Though the company covers around 80 per cent of its forex exposure by entering into forward contracts, however the profitability of the company remains vulnerable to fluctuation in foreign exchange on account of the un-hedged portion.

Analytical Approach: Consolidated. The List of companies considered for consolidated analysis is given in **Annexure 2.**

Applicable Criteria

Rating Methodology for manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile of RPL is expected to remain strong marked by its satisfactory cash accruals vis a- vis it's no debt repayment obligations in the near term. Moreover, the company has no debt availment plan in the near term which imparts further comfort. The average utilization of its fund based limits during the twelve months ended June 2020 remained moderate at only ~54% indicating an adequate liquidity buffer. The company has sufficient gearing headroom due to its comfortable capital structure.

About the Company

Roto Pumps Limited (RPL) is engaged in manufacture of industrial pumps, including progressive cavity pumps and twin-screw pumps. The manufacturing facilities of the company are located in Noida, Uttar Pradesh. The Company is listed on the Bombay Stock Exchange.

Financials (Standalone)

(Rs. crore)

For the year ended / As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	127.76	121.67
EBITDA	29.00	22.14
PAT	15.30	12.84
Total Debt	26.48	16.77
Tangible Net worth	83.02	94.01
Adjusted Tangible Net worth (including subordinate debt)	73.93	81.82
EBITDA Margin (%)	22.70	18.20
PAT Margin (%)	11.83	10.11
Overall Gearing Ratio (x)	0.36	0.20

**As per Infomerics standard*

Financials (Consolidated)

(Rs. crore)

For the year ended / As On	31-03-2019	31-03-2020
Total Operating Income	135.04	132.63
EBITDA	30.20	21.99
PAT	16.17	11.62
Total Debt	26.48	17.07
Tangible Net worth	76.99	86.46
Adjusted Tangible Net worth (including subordinate debt)	76.99	86.46
EBITDA Margin (%)	22.36	16.58
PAT Margin (%)	11.85	8.46
Overall Gearing Ratio (x)	0.34	0.20

**As per Infomerics standard*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Limits – Cash Credit	Long term	14.00^ (Reduced from Rs. 30 crore) @	IVR A- (Credit watch with developing implications)	IVR A- /Stable (May 13, 2019)	--	--
2.	Long Term/Short Term Fund Based/ Non Fund Based -Multiline Working Capital Facility@	Long term/ Short term	30.0*	IVR A-/ IVR A2+ (Under credit watch with developing implications)	--	--	--
3.	Short Term Non-Fund Based Limits – Letter of Credit/Bank Guarantee	Short term	2.50# (Reduced from Rs. 10.00 crore)	IVR A2+ (Under credit watch with developing implications)	IVR A2 (May 13, 2019)	--	--

^Includes sub-limit EPC/PCFC/FBD- Rs.8.50crore, Sublimit EBP- Rs.4.00 crore @*reclassification from long term facilities to long term/short term facilities

*Includes various sub-limits as mentioned below:

. Cash Credit/Overdraft: Rs. 10 crore

. Bank Guarantee: Rs. 10 crore

. PCFC/PSFC: Rs. 25 crore

. WCDL: Rs. 15 crore

. Standby LC/LC: Rs. 10 crore

includes sub limit Letter of Credit- Rs. 2.50 crore

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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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 Bank Facilities- Cash Credit	-	-	On demand	14.00^	IVR A-/ Credit watch with developing implications
Long Term/Short Term Fund Based/ Non Fund Based Facility- Multiline Working Capital Facility@	-	-	-	30.00*	IVR A-/ IVR A2+ Credit watch with developing implications
Short Term Bank Facilities – Letter of Credit/Bank Guarantee	-	-	-	2.50 #	IVR A2+/ Under credit watch with developing implications

^Includes sub-limit EPC/PCFC/FBD- Rs.8.50crore, Sublimit EBP- Rs.4.00 crore @*reclassification from long term facilities to long term/short term facilities

*Includes various sub-limits as mentioned below:

- Cash Credit/Overdraft: Rs. 10 crore
- Bank Guarantee: Rs. 10 crore
- PCFC/PSFC: Rs. 25 crore
- WCDL: Rs. 15 crore
- Standby LC/LC: Rs. 10 crore

includes sub limit Letter of Credit- Rs. 2.50 crore

Annexure 2: List of companies considered for consolidated analysis

Name of the Company	Nature	Consolidation Approach
Roto Pumps Limited	Parent	-
Roto Pumps Americas Inc.	wholly owned subsidiary	Full Consolidation
Roto Pumpen GMBH	wholly owned subsidiary	Full Consolidation
Roto Overseas Pte. Ltd, Singapore	wholly owned subsidiary	Full Consolidation
Roto Pumps (Africa) Pty Ltd	Step down subsidiary	Full Consolidation