

R.R.Energy Ltd.

December 22, 2017

Ratings

Instrument / Facility	Existing Amount (Rs. crore)	New Amount (Rs. Crore)	Ratings	Rating Action
Long-Term Debt- Term Loan	5.00	38.54	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Enhanced and Reaffirmed
Long Term Fund based facilities- Cash Credit	20.00	19.36	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Reduced and Reaffirmed
Short Term Non Fund based facilities- Letter of Credit	5.00	14.00	IVR A4 (IVR A Four)	Enhanced and Reaffirmed
Short Term Non Fund based facilities- Bank Guarantee	-	2.10	IVR A4 (IVR A Four)	Assigned
Total	30.00	74.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of R.R.Energy Limited (RREL) continues to take into account its small scale of operations, exposure of profitability to volatility in raw material prices and seasonality associated with its availability, significant exposure in other loss-making companies and liquidity stress reflected in full utilisation of working capital limits. The ratings, however, derive strength from its experienced promoters along with induction of new promoters and fund infused by them, low off take risk owing to the presence of a long-term power purchase agreement (PPA) and improvement in financial performance in FY17 (FY refers to the period April 1 to March 31). Maintaining its profit margins whilst growing its scale of operations, reducing exposure to weak group companies, efficient management of working capital and trend in gearing are the key rating sensitivities.

List of Key Rating Drivers

- Small scale of operations
- Exposure of profitability to volatility in raw material prices and seasonality associated with its availability

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- Significant exposure in other loss-making companies
- Liquidity stress reflected in full utilisation of working capital limits
- Experienced promoters
- Induction of new promoters who have infused money
- Low off take risk owing to the presence of a long-term PPA
- Improvement in financial performance in FY17

Detailed Description of Key Rating Drivers

Key Rating Weaknesses

Small scale of operations

RREL's scale of operations remained erratic and small over the past years with a PAT of Rs.0.83 crore on total operating income of Rs.76.87 crore in FY17.

Exposure of profitability to volatility in raw material prices and seasonality associated with its availability

The performance 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 the crop in a given season.

Significant exposure in other loss-making companies

RREL had exposure of Rs.46.64 crore in the form of investments and loans in its group/associate companies having weak credit profile which account for about 70% of its net worth as on March 31, 2017. Excluding the exposure to these companies from the net worth, the overall gearing ratio stood very high at 3.50x (4.06x as on March 31, 2016) as on March 31, 2017.

Liquidity stress reflected in full utilisation of working capital limits

RREL's operations are working capital intensive as a large part of its working capital remained blocked in its inventories. Further, the company collects the payment from Chhattisgarh State Power Distribution Company Limited (CSPDCL) within 60 to 90 days. The working capital requirements of the company is largely funded by long credit period availed from its creditors and bank borrowings. In view of its high working capital

intensity, the average working capital utilisation for the company remained high at around 98% during the past 12 months ended on October, 2017. Further, there have been few instances of overdrawals over the past seven months ended on October 31, 2017.

Key Rating Strengths:

Experienced promoters

The original promoters of RREL are well established business families of Chhattisgarh in their respective line of business. Shri Rajendra Kumar Agrawal, Shri S.C. Singhal and Shri Amar Agrawal are the founders of the RK group of Chhattisgarh with business experience of over 25 years having diverse business operations in the field of coal trading, transportation and construction through various companies. However, the other promoters, Shri Ashok Agrawal and Shri Aman Agrawal who also has established businesses exited from RREL during Q2FY18.

Induction of new promoters who have infused money

The promoters of Delhi based, The World Window Group, bought 50% equity stake in the company through one of its group company, Magnifico Minerals Private Limited during Q2FY18 from the existing promoters. The Worlds Window group in engaged in metal & metal scrap trading, manufacturing of aluminum composite panels and logistics solutions including operation of Inland Container Depots (ICDs) through its various companies. Till October 31, 2017 Magnifico Minerals Private Limited have infused interest free unsecured loan aggregating to Rs.19.17 crore to support the business operations of RREL.

Low off take risk owing to the presence of a long-term PPA

RREL has signed a PPA with Chhattisgarh State Power Distribution Company Limited (CSPDCL) for a period of 20 years (signed in March, 2016) acquired through tender, based on lowest fixed tariff 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. Further, the company has an escrow mechanism with State

Bank of India (lead banker) to receive the proceeds from CSPDCL and to service its debt obligations.

Improvement in financial performance in FY17

The financial performance of the company remained weak in FY15 and FY16 due to continuous decline in its ferro alloys sales and absence of any PPA for power sales. In FY15, the company had incurred losses due to high finance charges and depreciation. However, there was no cash loss. Further in FY16, significant deterioration in revenue from ferro alloys segment and lower absorption of fixed overheads coupled with absence of PPA for first 11 months resulted in operating loss and cash loss for the company. However, the financial performance of the company improved significantly in FY17 driven by the improvement in power sales backed by the PPA executed with CSPDCL. Total operating income increased by about 71% and the company earned an EBIDTA margin of 26.09% in FY17. Further, RREL has also posted net profit and earned a GCA of Rs.9.63 crore in FY17 as against cash loss in FY16. During H1FY18, the company has achieved total operating income of Rs.33.03 crore.

Analytical Approach and Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition and Post-Default Curing Period

About the Company

R.R. Energy Limited (RREL), was incorporated in April, 2004 by Raigarh (Chhattisgarh) based Shri Rajendra Kumar Agrawal and his brothers, Shri S C. Singhal, Shri Amar Agrawal and Bilaspur (Chhattisgarh) based Shri Ramavtar Agrawal, Shri Ashok Kumar Agrawal (brother of Shri Ramavtar Agrawal) and Shri Aman Agrawal (son of Shri 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). Further, in September 2010, the company installed a fly ash brick manufacturing plant with a capacity of manufacturing 100,000 bricks per day to utilize the fly ash generated from power production. To diversify its operations further, RREL commissioned a ferro-alloy (mainly ferro-manganese/silico-manganese) plant which commenced operation from July, 2013. Presently, both the bricks and ferro-alloys plants are not operational. RREL has executed a

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PPA with CSPDCL for 20 years (started from March, 2016) for sale of 13MW power. Currently, the plant is running at a PLF of 96.34% (H1FY18).

The promoters of Delhi based, The World Window Group, bought 50% equity stake in the company through Magnifico Minerals Private Limited, a part of The World Window Group during Q2FY18 from the existing promoters (mainly from Shri Ashok Agrawal and Shri Aman Agrawal). Presently, the day-to-day affairs of the company are managed by Shri Yogesh Singhal (son of Shri Rajendra Kumar Agrawal) having an experience of more than a decade.

Financials (Standalone)

(Rs. Crores)

For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	44.89	76.87
EBITDA	-7.72	20.06
PAT	-30.77	0.83
Total Debt	78.36	70.45
Tangible Net worth	65.92	66.75
EBITDA Margin (%)	-17.20	26.09
PAT Margin (%)	-67.78	1.07
Overall Gearing Ratio (x)	1.19	1.06

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date (s) & Rating (s) assigned in 2017-18	Date(s) & Rating (s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Debt-Term Loan	Long Term	38.54	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)		--	--
2.	Long Term Fund Based Limits-Cash Credit	Long Term	19.36	IVR BB/Stable Outlook	IVR BB/Stable Outlook			

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date (s) & Rating (s) assigned in 2017-18	Date(s) & Rating (s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
				(IVR Double B with Stable Outlook)	(IVR Double B with Stable Outlook)			
3.	Short Term Non Fund Based Limits- Letter of Credit	Short Term	14	IVR A4 (IVR A Four)	IVR A4 (IVR A Four)		--	--
4.	Short Term Non Fund based facilities- Bank Guarantee	Short Term	2.10	IVR A4 (IVR A Four)	--		--	--

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 Debt-Term Loan	Present Outstanding	Varied	December, 2020	38.54	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
Long Term Fund Based Limits-Cash Credit	-	-	-	19.36	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
Short Term Non Fund Based Limits- Letter of Credit	--	--	--	14	IVR A4 (IVR A Four)
Short Term Non Fund Based Limits- Bank Guarantee	--	--	--	2.10	IVR A4 (IVR A Four)