

**Rapicut Carbides Limited**  
 February 12, 2021

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable/ A Four Plus) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Stable (Double B Plus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4+ (A Four Plus) and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00</b>		

*Details of facilities in Annexure-I*

**Detailed Rationale & Key Rating Drivers**

CARE has reviewed the ratings assigned to the bank facilities of Rapicut Carbides Limited (RCL) to CARE BB+; Stable / CARE A4+ and has simultaneously withdrawn it with immediate effect. The ratings continues to remain constrained on account of moderate scale of operation with reported net loss in FY20 (Un-Audited, refers to period April 01, 2019 to March 31, 2020), elongated operating cycle and susceptibility of profit margins to fluctuations in raw material prices and competition from imported products. The ratings also factor in further moderation in scale of operation along with profitability in H1FY21 (UA, refers to period April 01, 2020 to September 30, 2020). The ratings, however, continues to draw strength from vast experience of promoters of RCL, its established track record of operations and diversified product mix coupled with strong marketing and distribution network and its comfortable capital structure as well as moderate debt coverage parameters. The rating withdrawn is at the request of RCL and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

**Detailed description of the key rating drivers****Key Rating Weaknesses****Moderate scale of operations with reported net loss in FY20 and H1FY21**

During FY20, total operating income (TOI) exhibited de-growth of 27.42% over FY19 and remained moderate at Rs.33.60 crore as against Rs.46.28 crore during FY19 due to decline in sales during H2FY20 owing to lower demand as mines were closed due to extended monsoon season in southern and eastern India along with lockdown of operations due to COVID-19 pandemic during the month of March-2020. Further, the scale of operations has moderated in H1FY21 due to decline in sales owing to lower demand as mines were closed due to lockdown and remained at Rs.10.26 crore as compared to Rs.18.47 crore during H1FY20.

The profitability of RCL declined in FY20 due to moderation in TOI along with increased raw material costs and fixed overheads which RCL was not able to pass on to its customers due to subdued demand scenario. This is reflected from decline in PBILDT margin to 2.32% in FY20 as against 10.42% in FY19. Further, as a consequence of decline in operating margin coupled with higher depreciation and interest expenses during FY20, RCL reported net loss of Rs.0.08 crore as against PAT of Rs.2.84 crore in FY19. However, RCL reported cash profit of Rs.0.42 crore in FY20 as against Rs.3.64 crore in FY19. Further, RCL has reported operating loss of Rs.0.11 crore and cash loss of Rs.0.22 crore during H1FY21 mainly due to higher fixed overheads along with higher raw material costs as compared to PBILDT of Rs.1.17 crore and GCA of Rs.0.82 crore in H1FY20.

**Elongated operating cycle**

RCL maintains high inventory in form of processed material viz. tungsten carbide powder to execute final product quickly on receipt of order, and it generally maintains an average inventory of six months. Furthermore, average collection period also remained high at 70 days for FY20 as against 61 days during FY19. Resultantly, operating cycle remained elongated during the year.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Susceptibility of operating margins to raw material price fluctuations**

The primary raw materials that RCL requires for manufacturing carbide tools are cobalt, blue tungsten oxide, ammonium para tungstate and tungsten carbide powder. Owing to its high inventory levels, RCL is exposed to the risk associated with fluctuation in prices of these raw materials in imported as well as indigenous market.

**Competition from imported products**

The major manufacturers of sintered and powdered industrial tools are based in Europe, USA and China. Low cost and ease of availability of tungsten carbide have been an impetus for Chinese manufacturers, while in India, domestic requirements of tungsten are met by imports as well as domestic producers. Thus, in the domestic market, RCL faces competition from imports along with other big players whose scale of operations are higher than that of RCL.

**Key Rating Strengths****Experience of promoters with established track record of operations and diversified product mix coupled with strong marketing and distribution network**

RCL's earlier management consists of directors who have over three decade long experience in the machine tools manufacturing industry. Mr. Jagdish Bhatia was the founder promoter and managing director of the company. However, Mr. Jagdish Bhatia has resigned as Managing Director and Mr. Abhishek Gami has been appointed as Managing Director.

Mr. Abhishek Gami holds master degree in science and possesses experience of almost a decade in same line of business by working as a partner in M/S United Wolfram (one of the key supplier of RCL and engaged in trading and manufacturing of metal powders, tools and intermediaries of tungsten, cobalt and related products since 2013). Further, operations of the entity are supported by other directors viz. Mrs. Shruti Gami, Mr. Kishor Sharma and Mr. Dhananjay Kanitkar along with second-tier experienced professionals.

RCL started its operations in 1979, thereby has a long track record of business operations of over three decades and has diversified product mix having more than 100 types of metal cutting tools which is being used in varied industries. Further, RCL has a strong marketing and distribution network and has developed business relationship with its customers for more than a decade from whom it gets repetitive orders.

**Comfortable capital structure as well as moderate coverage parameters**

Capital structure of RCL improved due to decrease in total debt as on March 31, 2020 as a result of lower utilization of working capital borrowings as on balance sheet date and remained comfortable at 0.07 times as on March 31, 2020 as against 0.13 times as on March 31, 2019 which further improved in H1FY21 to 0.01 times as on September 30, 2020.

However, debt coverage indicators deteriorated due to decline in profitability during the year but remained moderate marked by total debt to GCA of 3.88 times as on March 31, 2020 as against 0.93 times as on March 31, 2019. Further, interest coverage ratio of RCL also reduced significantly over previous year owing to decrease in operating profits but remained moderate at 2.17 times during FY20 as against 20.96 times during FY19. However, debt coverage indicators remained poor due to reported operating and cash losses during H1FY21. Also, RCL had not availed any moratorium for its bank facilities during COVID-19.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios-Non Financial Sector](#)

[Criteria for Short Term Instruments](#)

**About the company**

Incorporated in 1977, RCL is a public limited company promoted by Mr. Jagdish Bhatia. RCL commenced commercial production of tungsten carbide products such as metal cutting tips and inserts, special formed tips, wire drawing dies, integrated drill steel rods and tungsten metal and carbide powder in October 1979. RCL operates from its ISO 9001:2015 certified manufacturing facility located in Ankleshwar (Gujarat) having an installed production capacity of 150 metric tons per annum (MTPA) of tungsten and tungsten carbide related products as on March 31, 2019. RCL's products find application in the mining, automobile, rock drilling, oil exploration and general engineering industries as cutting tools. Over the years, RCL has setup its marketing network across India and it has moderate exports to Saudi Arabia. Recently after change in the ownership of the company, the management of RCL has changed as Mr. Jagdish Bhatia has resigned from the post of Managing Director on June 30, 2020 and Mr. Abhishek Gami has been appointed as a Managing Director of the Company for

5 years effective from July 01, 2020. Further, Mrs. Shruti Gami and Mr. Kishor Sharma has been appointed as Additional Directors from July 01, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (UA)
Total Operating Income	46.27	33.60
PBILDT	4.81	0.78
PAT	2.84	-0.08
Overall Gearing (times)	0.13	0.07
Interest coverage (times)	20.97	2.17

A: Audited; UA: Unaudited

In H1FY21 (UA), RCL has achieved TOI of Rs.10.26 crore with operating loss and net loss of Rs.0.11 crore and Rs.0.49 crore respectively as against TOI of Rs.18.47 crore with operating profit and net profit of Rs.1.17 crore and Rs.0.42 crore respectively during H1FY20 (UA).

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

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	1)CARE BB+; Stable / CARE A4+ (03-Sep-20) 2)CARE BBB-; Negative / CARE A3 (09-Jul-20)	1)CARE BBB- / CARE A3 (CWD) (24-Feb-20) 2)CARE BBB / CARE A3+ (CWD) (06-Nov-19) 3)CARE BBB / CARE A3+ (CWD) (21-Aug-19)	1)CARE BBB; Stable / CARE A3+ (20-Sep-18)	1)CARE BBB; Stable / CARE A3+ (04-Oct-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	1)CARE A4+ (03-Sep-20) 2)CARE A3	1)CARE A3 (CWD) (24-Feb-20) 2)CARE A3+	1)CARE A3+ (20-Sep-18)	1)CARE A3+ (04-Oct-

					(09-Jul-20)	(CWD) (06-Nov-19) 3)CARE A3+ (CWD) (21-Aug-19)		17)
3.	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A4+ (03-Sep-20) 2)CARE A3 (09-Jul-20)	1)CARE A3 (CWD) (24-Feb-20) 2)CARE A3+ (CWD) (06-Nov-19) 3)CARE A3+ (CWD) (21-Aug-19)	1)CARE A3+ (20-Sep-18)	1)CARE A3+ (04-Oct-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (20-Sep-18)	1)CARE BBB; Stable (04-Oct-17)
5.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB+; Stable (03-Sep-20) 2)CARE BBB-; Negative (09-Jul-20)	1)CARE BBB- (CWD) (24-Feb-20) 2)CARE BBB (CWD) (06-Nov-19)	-	-

**Annexure-3: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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