RCI Industries and Technologies Limited

April 03,2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	105.00	CARE BBB; Stable [Triple B; Outlook: Stable]	Assigned
Short-term Bank Facilities	105.00	CARE A3 [A Three]	Assigned
Total Facilities	**210.00 (Rs. Two hundred and ten crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RCI Industries and Technologies Limited (RITL) factors in the promoters experience with long track record of operations in the industry, improved operational performance at the back of regular capital expansion, comfortable capital structure and efficient working capital management. The ratings are however constrained on account of low profitability margins, project execution risk, customer concentration risk and foreign exchange fluctuation risk.

Going forward, the company's ability to increase its scale of operations and improve profitability margins while maintaining its capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management with long track record of operations: RCI Industries and Technologies is the flagship company of RCI Group. The group is promoted by Mr. Rajeev Gupta who has more than 25 years of experience in trade; manufacturing and export of non-ferrous metals which has enabled the company to build strong relationship with customers and improve its scale of operations. Mr. Rajeev Gupta is further assisted by a team of experienced professionals to manage the operations of the company. Mr. I.P. Saboo the CFO of the company is a qualified charted accounted and has more than 30 years of experience in Finance and Taxation.

Improved operational performance: RITL manufactures Copper Wire & Strips, Brass Art ware, Tin Solder, Alloy-Bars & Strips etc. in its manufacturing facility located in Baddi, Himachal Pradesh. The company has augmented its installed capacity from 11000 MTPA in FY15 to 24000 MTPA in FY16 to 25500 MTPA in FY17. This combined with increased capacity utilization has resulted in improvement in the topline of the company. The operating income of the company grew at a CAGR of 20.86% to Rs. 1737.43 cr in FY17. The company has reported an operating income of Rs. 1624.82 cr with PBILDT margins of 2.85% during 9MFY18.

Comfortable Capital Structure with moderate overall gearing: The debt profile of RITL is marked by loans and advances from friends and relatives to fund its capital expenditure requirements and working capital borrowings of with no long term debt obligations. The overall gearing of RITL remained moderate at 1.11x (PY: 2.11x) as on 31st March 2017 majorly on account of infusion of additional equity during FY17. The other debt coverage indicators marked by interest coverage and total debt to gross cash accrual also improved to 4.62x (PY: 2.70x) and 4.21 years (PY: 8.89 years) respectively as on March 31, 2017.

Efficient working capital management: RITL has been efficiently managing its working capital cycle as reflected by operating cycle of 35 days (PY: 37 days) in FY17 majorly on account of low inventory holding period. The company procures raw material against LC (tenor ranging from 90-180 days) from domestic as well as international suppliers. Apart from this, RITL also import raw material on 100% payment in advance. Thus, on an average the creditor's period is around 30-40 days. Further, depending on the credit worthiness, the company offers a credit period (backed by postdated cheques (PDC)) ranging from 30-60 days to its customers. Moreover, some sales are also made on LC basis thereby

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

reducing the average collection period to 50-60 days. Thus, the company has been efficiently managing its working capital cycle with moderate working capital utilization of 71.21% for the past 12 months ending Dec'17.

Key Rating Weaknesses

Low profitability margins albeit improving: The profitability margins of the company remain thin on account of low value addition in manufacturing process and trading nature of operations. However, the profitability margins has improved as reflected by PBILDT and PAT margins of 3.07% (PY: 2.17%) and 2.06% (PY: 1.11%) respectively in FY17. The same was on account of enhanced contribution of sale of manufactured products to total revenue, higher plant utilization capacity leading to better absorption of fixed cost, bringing economies of scale in the process of manufacturing and leading to reduction of fixed cost.

Copper by virtue of being a global commodity has shown a volatile price trend over the years. The company procures its key raw material i.e. copper; from local players as well as through imports at market linked rates. The prices of copper are directly linked to London Metal Exchange (LME) prices. Hence it is exposed to volatility in raw material prices. In order to mitigate the risk of price volatility, RITL follows a policy of open pricing to its customers wherein the prices of the finished goods are determined post the procurement of raw material once the same is fixed by the customer.

Project execution risk: The company is in the process of further enhancing its installed capacity by 24000 MTPA by December 2019 in a phased manner with 15000 MTPA already operational till March'18. Post the expansion the total installed capacity would increase to 48000 MTPA. The enhanced capacity would be used for manufacturing of flat products such as copper strips, brass strips etc. The total cost of the project is Rs. 60.00 cr to be funded through equity infusion of Rs. 49.09 cr and remaining through internal accrual. The required amount of equity has already been infused in FY17 through preferential allotment. Till Dec 31, 2017, RITL had incurred around Rs. 40 cr of the project cost. This will result in increase in scale of operations with improved profitability as flat products fetches higher margin of 6%-7%. Thus, timely execution of project remains imperative for garnering the improvements in the operational profile of the company.

Foreign currency exposure: The company derived approximately 11% of its total revenue in FY17 from exports and imported around 22% of its total purchase requirement which provides natural hedge to some extent. Further, RITL hedges its entire exports receivable through forward contracts. Still the company reported losses due to forex fluctuations in FY17. Thus, despite a definitive hedging policy RITL is still exposed to foreign exchange fluctuation risk to some extent.

Industry Outlook: Demand for non-ferrous metals comes from sectors such as agriculture, automobiles, railways, telecommunications, construction and chemicals. With rapid development & good economic prospects, demand for non-ferrous metals is expected to increase in the coming years.

Further government policies such as FTA with ASEAN countries benefits traders through import duty exemptions.

Analytical approach: Consolidated

While arriving at the ratings of RCI Industries and Technologies Limited (RITL), CARE has taken a consolidated view of RITL and its subsidiaries RCI World Trade Link DMCC and RCI Skills & Social Development Private Limited on account of companies operating in the same line of business with common ownership and management.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Rating Methodology: Factoring Linkages in Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

RCI Industries and Technologies Limited (RITL) was incorporated in January 1992 and is engaged in the business of manufacturing and trade of copper wires including annealed copper wire, bunched copper wire ropes, copper ingots etc which are used in various industrial and electrical applications. The products manufactured by the company adhere to ISO Certifications such as ISO 9001:2015 and 14001:2015. The company is also listed in BSE.

RITL was initially a trading player in Ferrous and Non-Ferrous Metals. In 2006, RCI established a 100 per cent EOU — Satya Metals, a partnership firm which was subsequently merged with RCI Industries in 2014

Further, during FY17 RITL had acquired Devi Metals which used to manufacture copper, brass, stainless steel strips/sheets and coils.

The company has its manufacturing facilities located in Nalagarh and Baddi, Himachal Pradesh with an installed capacity of 25500 Metric Tonne Per Annum (MTPA) as on 31st March 2017. Besides this, RITL has two warehouses in Delhi, Maharashtra and Rajasthan.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1271.03	1737.43
PBILDT	27.62	53.29
PAT	14.12	35.82
Overall gearing (times)	2.11	1.11
Interest coverage (times)	2.70	4.62

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Cash Credit	-	-	-	105.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	105.00	CARE A3

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	105.00	CARE BBB; Stable	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	105.00	CARE A3	-	-	-

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