RMC Switch Gears Limited

September 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remark
Long-term Bank Facilities	16.75	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Short-Term Bank Facilities	30.00	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total facilities	**46.75 (Rupees Forty Six crore and Seventy Five lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key rating Drivers

The ratings assigned to the bank facilities of RMC Switch Gears Limited continue to remain constrained on account of its financial risk profile marked by moderate profitability, moderate solvency position and stressed liquidity position. The ratings are, further, continued to remain constrained by its presence in the highly competitive and fragmented industry with vulnerability of margins to fluctuation in the raw material prices.

The ratings, however, continue to favorably take into account the long experience of the management as well as its long track record of operations in the manufacturing of electrical equipment. The ratings, further, continue to get strength from its continuous growth in scale of operations during past three years ended FY19 (FY refers to the period from April 1 to March 31), strong order book position, diversification of product offerings and established presence with customers all over India.

The ability of the company to increase its scale of operations by securing more contracts along with speedy execution of same with improvement in profitability and better management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Moderate profitability margins and solvency position

The profitability margins of the company remained moderate with PBILDT and PAT margin of 10.28% and 2.87% respectively in FY19. However in order to get more orders in competitive environment, the company has to bid at lower price due to which profitability of the company has witnessed declining trend during past three financial years ended FY19. During FY19, PBILDT margin of the company has declined by 133 bps over FY18 which also results in decline in PAT margin by 13 bps however offset by proportionately lower interest and depreciation expenses. Despite decline in profitability margins, Gross Cash Accruals (GCA) of the company has improved by 33.89% in FY19 over FY18 mainly due to significant growth in TOI.

The capital structure of the company stood moderate marked by an overall gearing of 1.12 times as on March 31, 2019. Further, debt service coverage indicators of the company stood moderate with total debt to GCA of 5.63 times as on March 31, 2019, improved from 6.71 times as on March 31, 2018 mainly on account of proportionately higher increase in GCA level than total debt level. Further, interest coverage ratio of the company stood at 2.14 times in FY19, also improved from 1.92 times in FY18.

Stressed liquidity position

Liquidity profile of the company remained moderate marked by around 94.00% of average utilization of working capital bank borrowings during last twelve months ended July, 2019. Further the company mainly supplies its product to SEBs where it get delayed payment from customers and hence collection period stood high at 114 days in FY19 and while it gets credit period of 60-75 days from its suppliers due to which operating cycle stood moderate at 64 days in FY19. Cash and bank balance stood at Rs. 0.77 crore as on March 31, 2019. Further in order to support day to day operation, the company has infused unsecured loan of Rs.5.09 crore in FY19.

Presence in highly competitive industry with vulnerability of margins to fluctuation in raw material prices During February-RMC's presence in the highly fragmented industry with presence of a few numbers of organized and large numbers of unorganized players coupled with the tender driven nature of business poses huge competition and puts pressure on the profitability margins of the players.

Further, the main raw material of the company is MS sheets, copper sheets and PV resins and the prices of these raw materials are governed by demand-supply dynamics and had shown huge fluctuations in past few years.

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

Key Rating Strengths

Experienced management with long track record of operations results in established relationship with customers all over India

RMC was incorporated in the year 1993 and hence, has a track record of more than two decades. Mr. Ashok Agrawal, Managing Director, has more than two decades of experience in this industry and looks after overall affairs of the company. He is assisted by his son, Mr. Ankit Agrawal, director, who also has more than eight years of experience in this industry and looks after sales and marketing functions of the firm. With the long-standing presence of the promoters in the industry, the promoters have established good clientele base in the industry which majorly incudes State Electricity Boards (SEB's) present all over India and also deals with NCC Limited, Larsen & Toubro Limited, Bajaj Electricals Limited, Laser Power and Infra Private Limited for supply of LTCT distribution and meter boxes.

Continuous growth in Total Operating Income (TOI) coupled with strong order book position

Due to long standing presence in the industry, RMC has established its relationship with its customers and received orders from them which led to continuous growth in scale of operation during past years. During past three financial years ended FY19, TOI of the company has grown healthy at a Compounded Annual Growth Rate (CAGR) of 59.09%.
As on July 16, 2019, RMC has an order book position of Rs.44.62 crore with 33 projects in hand reflecting strong order book position. The on-going projects of the company are expected to be completed by November, 2019 providing medium term revenue visibility.

Diversification of products offerings

Since the company mainly deals with government departments and gets late payment due to which it has to face liquidity flows. So the management has decided to diversify its existing business and undertook a project for manufacturing of PVC based decorative sheets and PVC marbles with an installed capacity of 4320 Metric Tonne Per Annum (MTPA) for PVC sheets and 960 MTPA of PVC based marbles. The company has completed its project and started its commercial operations from October, 2018 and till date it has achieved TOI of Rs.8.30 crore from this product by utilizing 50% of installed capacity. Further, the company has constituted separate qualified team for new product.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Jaipur (Rajasthan) based RMC Switchgears Limited (RMC) was originally established as a private limited company in 1993 by Mr. Ashok Agrawal under the name of Rajasthan Fitting House Private Limited for carrying out trading and manufacturing of copper and zinc based hardware fittings. Later, in 2004, it was reconstituted into public limited company and assumed its current name, RMC. Since 1993, the company has expanded its business from hardware fittings to the present business of manufacturing of board panel cabinets (equipped and un-equipped), aluminium channels for solar, single and three phases meter boxes for transmission, distribution boxes made up of metal (fabrication and deep drawn) and Sheet Moulded Compound (SMC) with or without installing of aggregated kits, Poly Vinyl Chloride (PVC) based decorative sheets and blocks and executes electrical contracts on turnkey basis. The company also sells aggregated kits which include bus bars, porcelain insulators and switchgears and other supporting equipment's. The company has its owned manufacturing facilities located at Badodiya Village, Chaksu- Tehsil. The plant of the company is certified with International Organization for Standardization (ISO) and also follows quality management system (QMS) like KAIZEN, TBM and 5- SIGMA for optimum utilization of resources with better time and quality management. Further, it sells PVC sheets under brand name of 'Lamina'.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	84.12	132.55
PBILDT	9.76	13.63
PAT	2.52	3.80
Overall gearing (times)	1.13	1.12
Interest coverage (times)	1.92	2.14

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for 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-Cash Credit	-	-	-	14.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	27.00	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE A4+
Fund-based - LT-Term Loan	-	-	April 2024	2.75	CARE BB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (26-Jul-18) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE BB; Stable (06-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	14.00	CARE BB+; Stable	1)CARE BB+; Stable (03-Apr-19)	1)CARE BB+; Stable (26-Jul-18) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE BB; Stable (06-Dec-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	27.00	CARE A4+	1)CARE A4+ (03-Apr-19)	1)CARE A4+ (26-Jul-18) 2)CARE A4; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE A4 (06-Dec-16)
4.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A4+	1)CARE A4+ (03-Apr-19)	1)CARE A4+ (26-Jul-18) 2)CARE A4; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE A4 (06-Dec-16)
5.	Fund-based - LT-Term Loan	LT	2.75	CARE BB+; Stable	1)CARE BB+; Stable (03-Apr-19)	1)CARE BB+; Stable (26-Jul-18)	-	-

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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