RMC Switchgears Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	17.04	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	30.00	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total	**47.04 (Rupees forty seven crore and four lakh only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RMC Switchgears Limited continue to remain constrained on account of its financial risk profile marked by moderate profitability, moderate debt coverage indicators and liquidity position. The ratings are, further, continued to remain constrained by its presence in the highly fragmented industry with vulnerability of margins to fluctuation in the raw material prices and absence of price escalation clause in its contracts.

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 growth in scale of operations in FY18 (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 Weaknesses

Vulnerability of margins to fluctuation in raw material prices with absence of price escalation clause

The main raw material of the company is MS sheets, copper sheets and PV resins and it purchases raw material mainly from approved vendors of State Electricity Boards (SEB's). The raw material cost constituted around 70-75% of TOI in last three financial years ended FY15. The prices of these raw materials are governed by demand-supply dynamics and had shown huge fluctuations in past few years. The price of PV resins which is a derivative of crude oil is driven by the international prices. Further, in all the contracts, the company does not have any price escalation clause that leads to vulnerability of margins to fluctuation in material cost.

Moderate profitability margins and debt coverage indicators

The profitability margins of the company remained moderate with PBILDT and PAT margin of 11.61% and 3% respectively in FY18.

The capital structure of the company stood moderate marked by an overall gearing of 1.13 times as on March 31, 2018, improved mainly on account of infusion of share capital of Rs.7 crore coupled with accretion of profits to reserves which offset to an extent with disbursement of new term loan and higher utilization of working capital bank borrowings as on balance sheet date. Further, debt service

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

coverage indicators of the company stood moderate with total debt to GCA of 7.09 times as on March 31, 2018 and the interest coverage ratio of the company stood at 1.92 times in FY18.

Moderate liquidity position
The business of the company stood moderate with maximum and average utilization of working capital bank borrowings stood at 74.72% and 67.23% respectively during last twelve months ended May, 2018. The liquidity ratio of the company stood moderate with current ratio and quick ratio of 1.30 times and 1.11 times respectively as on March 31, 2018 owing to high debtors. Debtors of the company constitute 71.16% of total current assets as on March 31, 2018. Cash & bank balance stood at Rs.0.84 crore as on March 31, 2019.

Key Rating Strengths
Significant growth in Total Operating Income (TOI) in FY18, strong order book position and established presence with customer presence all over India
During FY18, Total Operating Income (TOI) of the company has increased significantly by 60.62% over FY17 mainly on account of increase in orders from its customers for distribution and transmission meter boxes and increase in sale of services.
Due to long standing presence in the industry, RMC has established its relationship with State Electricity Boards (SEB's) present all over India and received orders from them. RMC caters to reputed company of India like NCC Limited, Larsen & Toubro Limited, Bajaj Electricals Limited, Laser Power and Infra Private Limited for supply of LTCT distribution and meter boxes. As on March 04, 2019, RMC has an order book position of Rs.52.65 crore with 36 projects in hand reflecting strong order book position. The on-going projects of the company are expected to be completed by July, 2019 providing medium term revenue visibility. However, there are delays in project implementation primarily due to non-clearance by government but the company is not required to pay any liquidated damages due to delays in project implementation.

Diversification of products offerings
In April, 2017, RMC undertook a project for diversification of its business. It undertook the 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. It had envisaged total project cost of Rs.6.78 crore to be funded through term loan of Rs.5 crore and remaining through internal accruals and share capital. The company has completed its project and started its commercial operations from October, 2018 which was funded through term loan of Rs. 3.64 crore and remaining through internal accruals.

Formation of wholly owned subsidiary company
In March, 2018, RMC has signed Memorandum of Understanding (MOU) with Factory Lab B.V., Netherlands to import as well as manufacture and market smart data loggers in India and other Asian countries. Hence, RMC has incorporated a wholly owned subsidiary named as Explora IOT Solutions Private Limited (EIS) on May 10, 2018. The operation of the company is yet to commence.

Analytical Approach: Standalone

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

Background of 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 of 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. The company also sells aggregated kits which include bus bars, porcelain insulators and switchgears and other supporting equipment's as well as also manufacturers Poly Vinyl Chloride (PVC) based decorative sheets. The company has two manufacturing facilities located at Malviya Industrial Area, Jaipur and second one at Badodiya Village, Chaksu- Tehsil. The plants of the company are 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	52.37	84.12
PBILDT	7.27	9.76
PAT	1.53	2.52
Overall gearing (times)	1.34	1.19
Interest coverage (times)	1.70	1.92

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	3.04	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 2018-2019	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-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)	1)CARE BB- (27-Aug-15)
2.	Fund-based - LT-Cash Credit	LT	14.00	CARE BB+; Stable	1)CARE BB+; Stable (26-Jul-18) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE BB; Stable (06-Dec-16)	1)CARE BB- (27-Aug-15)
3.	Non-fund-based - ST-Bank Guarantees	ST	27.00	CARE A4+	1)CARE A4+ (26-Jul-18) 2)CARE A4; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE A4 (06-Dec-16)	1)CARE A4 (27-Aug-15)
4.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A4+	1)CARE A4+ (26-Jul-18) 2)CARE A4; ISSUER NOT COOPERATING* (03-Apr-18)	-	1)CARE A4 (06-Dec-16)	1)CARE A4 (27-Aug-15)
5.	Fund-based - LT-Term Loan	LT	3.04	CARE BB+; Stable	1)CARE BB+; Stable (26-Jul-18)	-	-	-

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