Rapicut Carbides Limited

February 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1.35	**CARE BBB- (Triple B Minus) [Under credit watch with developing implications]**	Revised from CARE BBB; (Triple B); [Under credit watch with developing implications]
Long Term/ Short-Term Bank Facilities	4.70	**CARE BBB-/ CARE A3 (Triple B Minus/ A Three) [Under credit watch with developing implications]**	Revised from CARE BBB/ CARE A3+ (Triple B/ A Three Plus) [Under credit watch with developing implications]
Short Term Bank Facilities	3.75	**CARE A3 (A Three) [Under credit watch with developing implications]**	Revised from CARE A3+ (A Three Plus) [Under credit watch with developing implications]
Total	**9.80 (Rupees Nine crore Eighty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Rapicut Carbides Limited (RCL) is on account of decrease in scale of operations along with profitability during 9MFY20 (UA, refers to period April 01 to December 31). The ratings, also, continue to remain constrained on account of its elongated operating cycle, susceptibility of profit margins to fluctuations in raw material prices and competition from imported products.

However, the ratings continue to derive strength from its above average financial risk profile marked by comfortable capital structure, debt coverage indicators as well as liquidity position during FY19 (audited, FY; refers to period April 01 to March 31). The ratings also continue to take into consideration vast experience of promoters of RCL, its established track record of operations and diversified product mix coupled with strong marketing and distribution network.

The ratings for the bank facilities of RCL continue to remain 'under credit watch with developing implications' in view of the proposed change in ownership and management and the probable impact of the same on the credit profile of RCL. CARE will continue to closely monitor the developments with respect to the proposed changed in ownership as well as management and will take a view on the ratings of the company once the exact implication of this event on the credit risk profile of the company becomes clear.

Key Rating Sensitivities

Positive Factors

- Significant increase in scale of operations by more than 50% with achieving PBILDT margin of more than 13%.

- Sustaining capital structure at below unity level as well as debt coverage ratio marked by total debt/gross cash accruals at below unity level.
- Reduction in inventory holding period below three months on sustained basis.

Negative Factors

- Decline in PBILDT margins below 9% on sustained basis.
- Increase in collection period by more than 30 days resulted into elongation in operating cycle and putting pressure on liquidity.

Detailed description of the key rating drivers

Proposed change in ownership and management; which is under process

There is proposed change in ownership and management as Mr. Abhishek Gami (acquirer, Partner at M/S United Wolfram, one of the supplier of RCL) and Mrs. Shruti Gami (person acting in concert with acquirer) have executed share purchase agreement dated August 19, 2019 for acquisition of 27.77% (14,91,451 shares at price of Rs.42 per share) of stake from

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

existing promoters. This event triggered open offer on August 19, 2019 to the public share-holders for acquisition of up to 13,96,524 equity shares constituting 26% of share capital with consideration of Rs.42 per share as against existing share price of Rs.35.40 as on August 19, 2019. Out of total 13,96,524 shares proposed in open offer, 3,01,862 shares were actually tendered by public as per publication dated November 01, 2019.
However, change in management and publication of revised shareholding pattern is still pending.
As such, CARE will continue to closely monitor the developments with respect to the proposed change in ownership as well as management and will take a view on the ratings of the company once the exact implication of this event on the credit risk profile of the company becomes clear.

Key Rating Strengths

Comfortable capital structure and debt coverage indicators

Capital structure of RCL deteriorated marginally but remained comfortable marked by an overall gearing ratio of 0.13 times as on March 31, 2019 as against 0.06 times as on March 31, 2018 due to higher utilization of working capital bank borrowings as on balance sheet date.
Debt coverage indicators also continued to remain comfortable marked by total debt to GCA of 0.93 times as on March 31, 2019 (0.35 times as on March 31, 2018). Interest coverage of RCL although reduced marginally over previous year, remained comfortable at 20.96 times during FY19 (22.72 times during FY18) owing to decrease in operating profits.
However in 9MFY20, interest coverage ratio deteriorated significantly due to significant decrease in operating profitability coupled with increase in interest expenses during the period due to increased utilization of its working capital limits. RCL has utilized 60% of its sanctioned working capital limit on average basis for the past 12-months ended January 2020.

Vast experience of promoters with established track record of operations and diversified product mix coupled with strong marketing and distribution network

RCL's existing management consists of directors who have over three decade long experience in the machine tools manufacturing industry. Mr. Jagdish Bhatia is the founder promoter and managing director of the company. He looks after overall operations of the company and is involved in strategic decisions at RCL. Further, operations of the entity are supported by other experienced professionals. Further, CARE will continue to closely monitor the developments with respect to the proposed changed in ownership as well as management and will take a view on the ratings of the company once the exact implication of this event on the credit risk profile of the company becomes clear.
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 developed business relationship with its customers for more than a decade from whom it gets repetitive orders regularly.

Key Rating Weaknesses

Decrease in scale of operations as well as profitability during 9MFY20

During 9MFY20, total operating income (TOI) exhibited de-growth by 23% against TOI of 9MFY19 and remained moderate at Rs.25.17 crore as against Rs.32.76 crore in 9MFY19 due to moderation in TOI during Q3FY20 owing to lower demand of its products as mines were closed due to extended monsoon season in southern and eastern India.
Further, the profitability of RCL declined in 9MFY20 due to moderation in TOI in Q3FY20 with reporting operating loss in Q3FY20 owing to increased raw material costs coupled with fixed overheads against lower level of income which RCL was not able to pass on to customers due to lower demand. The PBILDT margin reduced to 4.05% during 9MFY20 as against PBILDT margin of 11.93% during 9MFY19. Consequently with increase in interest expenses during the 9MFY20, RCL reported PAT margin of 0.40% during 9MFY20 as against healthy PAT margin 6.86% during 9MFY19.

Elongated operating cycle

During FY19, working capital cycle of the company elongated to 198 days as against 174 days during FY18 on account of higher inventory holding period and increase in collection period. Further, operating cycle remained elongated owing to elongated inventory holding period, as RCL holds higher inventory in form of processed material viz. tungsten car-bide powder to execute quick final product in receipt of order.

Susceptibility of operating margins to raw material price fluctuations

The primary raw material that RCL require for manufacturing carbides tools are cobalt, blue tungsten oxide, ammonium Para tungstate and tungsten carbide powder. RCL is exposed to the risk associated with fluctuation in prices of these raw materials from 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. Further, low cost and ease of availability of tungsten carbide have been an impetus for Chinese manufacturers. In India, domestic requirements of tungsten are met by imports as well as domestic producers. In the domestic market, RCL faces competition from big players whose scale of operations is higher than that of RCL.

Liquidity Analysis: Adequate Liquidity
Overall liquidity remained adequate marked by moderate working capital limit utilization at 60% for past 12 months ended January, 2020 as balance working capital requirement is met through internal accruals. Further, although RCL reported cash loss of Rs.0.10 crore in Q3FY20 and lower level of cash profit of Rs.0.72 crore in 9MFY20, it is considered to be adequate against its scheduled debt repayment of Rs.0.19 crore for FY20.

Analytical Approach: Standalone

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

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.

Brief Financials (Rs. crore)	FY 18 (A)	FY19 (A)
Total operating income	41.83	46.27
PBILDT	5.35	4.81
PAT	3.16	2.84
Overall gearing (times)	0.06	0.13
Interest coverage (times)	22.72	20.97

A: Audited,

In 9MFY20(UA), RCL has achieved TOI of Rs.25.17 crore with PBILDT and PAT of Rs.1.02 crore and Rs.0.10 crore respectively as against TOI of Rs.32.78 crore with PBILDT and PAT of Rs.3.91 crore and Rs.2.25 crore respectively during 9MFY19(UA).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: 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	-	-	-	4.70	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)
Non-fund-based - ST-Bank Guarantees	-	-	-	0.75	CARE A3 (Under Credit watch with Developing Implications)
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE A3 (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	August 2024	1.35	CARE BBB- (Under Credit watch with Developing Implications)

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/ ST-Cash Credit	LT/ST	4.70	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)	1)CARE BBB / CARE A3+ (Under Credit watch with Developing Implications) (06-Nov-19) 2)CARE BBB / CARE A3+ (Under Credit watch with Developing Implications) (21-Aug-19)	1)CARE BBB; Stable / CARE A3+ (20-Sep-18)	1)CARE BBB; Stable / CARE A3+ (04-Oct-17)	1)CARE BBB-; Stable / CARE A3+ (08-Dec-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.75	CARE A3 (Under Credit watch with Developing Implications)	1)CARE A3+ (Under Credit watch with Developing Implications) (06-Nov-19) 2)CARE A3+ (Under Credit watch with Developing Implications) (21-Aug-19)	1)CARE A3+ (20-Sep-18)	1)CARE A3+ (04-Oct-17)	1)CARE A3+ (08-Dec-16)
3.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A3 (Under Credit watch with Developing Implications)	1)CARE A3+ (Under Credit watch with Developing Implications)	1)CARE A3+ (20-Sep-18)	1)CARE A3+ (04-Oct-17)	1)CARE A3+ (08-Dec-16)

					(06-Nov-19) 2)CARE A3+ (Under Credit watch with Developing Implications) (21-Aug-19)			
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (20-Sep-18)	1)CARE BBB; Stable (04-Oct-17)	1)CARE BBB-; Stable (08-Dec-16)
5.	Fund-based - LT-Term Loan	LT	1.35	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB (Under Credit watch with Developing Implications) (06-Nov-19)	-	-	-

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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