

## Rapicut Carbides Limited

July 09, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1.35	<b>CARE BBB-; Negative (Triple B Minus; Outlook: Negative)</b>	Reaffirmed and removed from Credit watch with developing implications
Long Term/ Short-Term Bank Facilities	4.70	<b>CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative/ A Three)</b>	Reaffirmed and removed from Credit watch with developing implications
Short Term Bank Facilities	3.75	<b>CARE A3 (A Three)</b>	Reaffirmed and removed from Credit watch with developing implications
<b>Total</b>	<b>9.80 (Rupees Nine crore and Eighty lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

\*CARE has removed the ratings assigned to the bank facilities of Rapicut Carbide Limited (RCL) from 'Credit watch with Developing Implications' on account of completion of process of change of ownership and management. The new management has taken charge of the company with effect from July 01, 2020.

The rating assigned to the bank facilities of RCL continue to take comfort from its comfortable capital structure, moderate debt coverage indicators and adequate liquidity during FY20 (Un-audited, refers to period April 01 to March 31). The ratings also take into consideration its established track record of operations and diversified product mix coupled with strong marketing and distribution network.

The ratings, however, continue to remain constrained on account of further decrease in its scale of operations with decline in profitability during Q4FY20 (UA) as well as FY20 (UA) as compared to Q4FY19 as well as FY19. The ratings also remain constrained due to its elongated operating cycle, susceptibility of its profit margins to fluctuations in raw material prices and competition from imported products.

### Outlook: Negative

The 'Negative' outlook on the long-term rating of RCL reflects CARE's expectation of pressure on scale of operations, profitability and debt coverage indicators during FY21 due to moderation in demand of its products on account of COVID-19 pandemic led subdued business activities. The outlook may be revised to stable in the event of pickup in demand and subsequent improvement in overall financial risk profile marked by increase in scale of operations, profitability, cash accruals and debt protection metrics.

### Key Rating Sensitivities

#### Positive Factors

- Significant increase in scale of operations at pre-COVID levels with achieving PBILDT margin of more than 10%
- Sustaining capital structure at below 0.25 times as well as improving debt coverage indicators marked by total debt/gross cash accruals at below 1.5 times and interest coverage of above 4 times.
- Sustaining positive cash flow from operations

#### Negative Factors

- Increase in collection period by 30 days resulting into elongation in operating cycle and putting pressure on liquidity.
- Decrease in scale of operations by 20% from current levels

### Detailed description of the key rating drivers

#### Change in ownership and management

CARE has removed the ratings assigned to the bank facilities of RCL from 'Credit watch with Developing Implications' on account of completion of process of change of ownership and management. The existing Managing Director, Mr. Jagdish Bhatia and Non Executive Directors named Mr. Chetan Cholera and Mr. Lalit Bijlani have resigned from July 01, 2020 and Mr.

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

Abhishek Gami (acquirer, Partner at M/S United Wolfram, one of the key supplier of RCL) has been appointed as Managing Director with effect from July 01, 2020 with Mrs. Shruti Gami and Mr. Kishore Sharma as non-executive additional Directors. Revised share holding pattern as on March 31, 2020 was published on April 21, 2020 with Mr. Abhishek Gami holding 15,86,986 shares (constitutes 29.55% stake of RCL) and Mrs Shruti Gami holding 1,48,640 shares (2.77%). Further, transfer of 57,687 shares (1.07% stake of RCL) from Mr. C. J. Bhatia to Mr. Abhishek Gami is still pending.

### **Key Rating Strengths**

#### **Comfortable capital structure and moderate debt coverage indicators**

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.

However, Debt coverage indicators deteriorated due to decrease 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 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.

#### **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 developed business relationship with its customers for more than a decade from whom it gets repetitive orders.

### **Key Rating Weaknesses**

#### **Decrease in scale of operations as well as profitability FY20**

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 sale 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 profitability of RCL declined in FY20 due to moderation in TOI with increased raw material costs coupled with fixed overheads, which RCL was not able to pass on to 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 dip in operating margin coupled with higher depreciations 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 against Rs.3.64 crore in FY19. And the gross cash accruals remained adequate as against its minimal repayment obligations for FY21.

#### **Elongated operating cycle**

RCL maintains high inventory in form of processed material viz. tungsten carbide powder to execute quick final product on receipt of order, while it generally maintains average inventory of six months. Average collection period remained at 70 days for FY20 as against 61 days during FY19. Resultantly, Operating cycle remained elongated owing to elongated inventory holding period and collection days.

#### **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 remained adequate as marked by adequate gross cash accruals of Rs.0.42 crore during FY20 as against its low debt repayment obligation of Rs.0.18 crore for FY21. Further, cash flows from operating activity remained positive at Rs.4.20 crore in FY20 as against negative Rs.0.81 crore during FY19 due to realization from trade receivables and rationalization of inventories during the year. Furthermore, Average utilization of fund based working capital limit remained moderate at 65% during past 12 months period ended June, 2020 and average utilization of no fund based working capital limit remained low at 50% for the past 12 months ended June, 2020. Moreover, cash & bank balance remained adequate at Rs.0.48 crore as on March 31, 2020 as against Rs.0.45 crore as on March 31, 2019. Further, RCL has not availed any moratorium for term loan due to COVID-19 and lockdown of operations. However, bank has sanctioned additional working capital limit of Rs.0.45 crore which is not yet availed.

**Analytical Approach:** Standalone

#### Applicable Criteria

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

[Financial Ratios-Non Financial Sector](#)

[Rating Methodology- Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[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
PBILDIT	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

**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-; Negative / CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.75	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE A3
Fund-based - LT-Term Loan	-	-	August 2024	1.35	CARE BBB-; Negative

## 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	4.70	CARE BBB-; Negative / CARE A3	-	1)CARE BBB- / CARE A3 (Under Credit watch with Developing Implications) (24-Feb-20) 2)CARE BBB / CARE A3+ (Under Credit watch with Developing Implications) (06-Nov-19) 3)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)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.75	CARE A3	-	1)CARE A3 (Under Credit watch with Developing Implications) (24-Feb-20) 2)CARE A3+ (Under Credit watch with Developing Implications) (06-Nov-19) 3)CARE A3+ (Under Credit watch with Developing Implications) (21-Aug-19)	1)CARE A3+ (20-Sep-18)	1)CARE A3+ (04-Oct-17)
3.	Non-fund-based	ST	3.00	CARE A3	-	1)CARE A3 (Under	1)CARE A3+	1)CARE A3+

	- ST-Letter of credit					Credit watch with Developing Implications) (24-Feb-20) 2)CARE A3+ (Under Credit watch with Developing Implications) (06-Nov-19) 3)CARE A3+ (Under Credit watch with Developing Implications) (21-Aug-19)	(20-Sep-18)	(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	1.35	CARE BBB-; Negative	-	1)CARE BBB- (Under Credit watch with Developing Implications) (24-Feb-20) 2)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](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.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name – Mrs. Shachee Vyas

Contact no.- (079) 40265665

Email ID- [shachee.tripathi@careratings.com](mailto:shachee.tripathi@careratings.com)

### Business Development Contact

Name: Mr. Deepak Prajapati

Contact no. : (079) 40265656

Email ID: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

### About CARE Ratings:

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