Rapicut Carbides Limited

September 03, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	0.07 (Reduced from 1.35)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Long Term/ Short-Term Bank Facilities	4.70	**CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)**	Revised from CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative/ A Three)
Short Term Bank Facilities	3.75	**CARE A4+ (A Four Plus)**	Revised from CARE A3 (A Three)
Total	**8.52 (Rupees Eight crore and Fifty Two lakh 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 significant decrease in scale of operations along with operating losses and cash losses reported during Q1FY21 (UA, refers to period April 01 to June 30) and deterioration in debt coverage indicators. The ratings, also, continue to remain constrained on account of elongated operating cycle and susceptibility of profit margins to fluctuations in raw material prices and competition from imported products.

However, the ratings continue to derive strength from vast experience of promoters of RCL, its established track record of operations and diversified product mix coupled with strong marketing and distribution network and its comfortable capital structure and adequate liquidity.

Key Rating Sensitivities

Positive Factors

- Significant increase in scale of operations by more than 2 folds with achieving PBILDT margin of more than 10%
- Sustaining capital structure at below unity as well as improving debt coverage indicators marked by total debt/gross cash accruals at below 3 times and interest coverage of above 4 times.
- Sustaining positive cash flow from operations

Negative Factors

- Further 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
- Any major debt funded capex undertaken by company putting pressure on capital structure and profitability.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decrease in scale of operations resulting in losses; and deterioration in debt coverage indicators in Q1FY21

During Q1FY21, total operating income (TOI) exhibited de-growth of 62.62% over Q4FY20 to a meager Rs.3.14 crore, as against Rs.8.40 crore during Q4FY20 due to decline in sales owing to lower demand, as mines were closed due to lockdown announced in the end of March 2020 owing to the outbreak of COVID-19 pandemic. On a y-o-y basis, the TOI dipped by 65.65% during the quarter.

Further, RCL reported higher operating losses of Rs.0.35 crore and net loss of Rs.0.59 crore during Q1FY21 as against operating loss of Rs.0.24 crore and net loss of Rs.0.18 crore during Q4FY20 on account of higher fixed overheads along with higher raw material costs. However, RCL reported PBILDT margin and PAT margin of 6.24% and 2.19% during Q1FY20 as against operating losses and net losses in Q1FY21. Resultantly, RCL continued to report cash loss of Rs.0.39 crore in Q1FY21 (UA) against cash loss of Rs.0.30 crore in Q4FY20 and cash profit of Rs.0.40 crore in Q1FY20. Further, owing to operating and cash loss during Q1FY21, debt coverage indicators marked by interest coverage ratio and total debt to GCA remained weak during the period.

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

Elongated operating cycle
RCL maintains high inventory in form of processed material viz. tungsten carbide powder to execute final product quickly on receipt of order, and it generally maintains an average inventory of six months. Furthermore, average collection period also remained high at 70 days for FY20 as against 61 days during FY19. Resultantly, operating cycle remained elongated during the year.

Susceptibility of operating margins to raw material price fluctuations
The primary raw materials that RCL requires for manufacturing carbide tools are cobalt, blue tungsten oxide, ammonium Para tungstate and tungsten carbide powder. Owing to its high inventory levels, RCL is exposed to the risk associated with fluctuation in prices of these raw materials in 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.Low cost and ease of availability of tungsten carbide have been an impetus for Chinese manufacturers, while in India, domestic requirements of tungsten are met by imports as well as domestic producers. Thus, in the domestic market, RCL faces competition from imports alongwith other big players whose scale of operations are higher than that of RCL.

Key Rating Strengths
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 a strong marketing and distribution network and has developed business relationship with its customers for more than a decade from whom it gets repetitive orders.

Comfortable capital structure
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 and remained comfortable at 0.07 times as on March 31, 2020 as against 0.13 times as on March 31, 2019.

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. Average utilization of working capital limit remained 65% during past 12 months period ended June, 2020. Average bank guarantee utilization remained low at 50% for the past 12 months ended June, 2020. Therefore, RCL is presently not facing major problem for debt servicing on as it has 35% approximately unutilized limit of working capital bank borrowings and they are also generating sufficient cash flows from operations which could suffice its repayment obligations. However, given its high inventory holding and collection period, its cushion in liquidity remains limited, with low cash & bank balance of Rs.0.48 crore as on August 31, 2020 and March 31, 2020, (Rs.0.45 crore as on March 31, 2019).
RCL has not availed any moratorium for term loan due to COVID-19 and lockdown of operations. RCL has applied for additional working capital limit of Rs.0.45 crore to meet the overheads in lockdown. Bank has approved this additional working capital of Rs.0.45 crore which is not yet availed by RCL

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
PBILDT	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

In Q1FY21 (UA), RCL has achieved TOI of Rs.3.14 crore with operating loss and net loss of Rs.0.35 crore and Rs.0.59 crore respectively as against TOI of Rs.9.14 crore with PBILDT margin and PAT margin of 6.24% and 2.19% respectively during Q1FY20 (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 BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	0.75	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE A4+
Fund-based - LT-Term Loan	-	-	August 2024	0.07	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 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 BB+; Stable / CARE A4+	1)CARE BBB-; Negative / CARE A3 (09-Jul-20)	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 A4+	1)CARE A3 (09-Jul-20)	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-Letter of credit	ST	3.00	CARE A4+	1)CARE A3 (09-Jul-20)	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)
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	0.07	CARE BB+; Stable	1)CARE BBB-; Negative (09-Jul-20)	1)CARE BBB- (Under Credit watch with Developing Implications) (24-Feb-20) 2)CARE BBB (Under Credit watch with Developing Implications) (06-Nov-19)	-	-

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

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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