

Rapicut Carbides Limited

August 21, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term/ Short-Term Bank Facilities	4.70	CARE BBB/ CARE A3+ (Triple B/ A Three Plus) [Under credit watch with Developing implications]	Ratings placed on Credit watch with developing Implications
Short Term Bank Facilities	3.75	CARE A3+ (A Three Plus) [Under credit watch with developing implications]	Ratings placed on Credit watch with developing Implications
Total	8.45 (Rupees Eight crore Forty Five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Rapicut Carbides Limited (RCL) under 'credit watch with developing implications' in view of proposed change in ownership and management. 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) has 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 existing promoters.

As such, 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.

The rating assigned to the bank facilities of Rapicut Carbides Limited (RCL) continue to take into account comfortable financial risk profile marked by healthy profit margins and comfortable capital structure, debt coverage indicators as well as liquidity position during FY19 (Unaudited, FY; refers to period April 01 to March 31). The ratings also 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, however, continue to remain constrained on account of its moderate scale of operations, susceptibility of profit margins to fluctuations in raw material prices and competition from imported products.

RCL's ability to increase its scale of operations, further improve its profit margins while managing raw material price fluctuations and sustaining its comfortable solvency position via efficient working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy profit margins

RCL reported marginal decline in profit margins but continued to remain comfortable marked by PBILDT margin of 10.41% in FY19 (UA) as against 12.78% in FY18 (A) mainly on account of increase in raw material costs. Consequently, PAT margin also declined marginally but continued to remain healthy at 6.14% during FY19 (UA) as compared to 7.56% during FY18 (A).

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 (UA) (0.06 times as on March 31, 2018).

Debt coverage indicators also continued to remain comfortable marked by total debt to GCA of 0.92 times as on March 31, 2019 (UA) (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 (UA) (22.72 times during FY18 (A)) owing to decrease in operating profits.

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

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

supported by other experienced professionals. Further, 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.

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

Moderate scale of operations with elongated operating cycle

During FY19 (UA), the scale of operations of RCL as marked by total operating income (TOI) continued to remain moderate. The overall volume of sales has grown by 9% on back of stable demand for its products. During FY19 (UA), RCL reported TOI of Rs.46.28 crore as against Rs.41.83 crore during FY18 (A).

During FY18, working capital cycle of the company elongated to 174 days as against 149 days during FY17 on account of higher inventory holding period.

Susceptibility of operating margins to raw material price fluctuations

The primary raw material that RCL requires for manufacturing carbide 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

The liquidity position of RCL continues to remain adequate marked by moderate utilization of its fund based working capital at 60% during past 12 months period ended July, 2019 and cash and bank balance of Rs.0.46 crore March 31, 2019. Further cash accruals also remained comfortable at Rs. 3.65 crore in FY19(UA) as against its Rs.0.25 crore of principal repayment obligation.

Analytical Approach: Standalone

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

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 17 (A)	FY 18 (A)	FY19 (UA)
Total operating income	42.12	41.83	46.28
PBILD	5.38	5.35	4.82
PAT	2.98	3.16	2.84
Overall gearing (times)	0.03	0.06	0.13
Interest coverage (times)	15.92	22.72	20.96

A: Audited; UA: Unaudited (published results on stock exchange)

During Q1FY20(UA), RCL has achieved TOI of Rs.9.14 crore with PBILDT and PAT of Rs.0.57 crore and Rs.0.20 crore respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please Refer Annexure-II

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)

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; 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+ (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+ (20-Sep-18)	1)CARE A3+ (04-Oct-17)	1)CARE A3+ (08-Dec-16)
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)

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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