February 03, 2017

# Ruttonsha International Rectifiers Limited

| Instrument* | Rated Amount (in Rs. crore) | Rating Action |
|---|---|---|
| Fund Based Limits | 8.00 (revised from 8.50) | [ICRA]BB+(Stable) re-affirmed |
| Non-Fund Based Limits | 1.10 (revised from 1.50) | [ICRA]A4+ re-affirmed |
| Unallocated Amount | 0.90 | [ICRA]BB+(Stable)/[ICRA]A4+ assigned |
| **Total** | **10.00** | |

*Instrument Details are provided in Annexure-1

**Rating Action**

ICRA has re-affirmed the long-term rating of [ICRA]BB+ (pronounced as ICRA double B plus)[1] and short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 9.10 crore of fund based and non-fund based limits of Ruttonsha International Rectifier Limited (RIRL). ICRA has also assigned the ratings of [ICRA]BB+/[ICRA]A4+ for the Rs. 0.90 crore unallocated amount. The outlook on the long-term rating is 'Stable'.

**Detailed Rationale**

The ratings re-affirmation continues to take into account the promoter's extensive experience in the manufacturing of semi-conductor devices and power equipment. ICRA notes RIRL's strong in-house technical know-how and manufacturing capability and its pre-qualification status from various reputed private and public sector undertakings (PSUs). The ratings are, however, constrained by the company's small scale of operations and its high working capital intensity due to high inventory days and low bargaining power with customers, which have resulted in high debtor days. The ratings also factor in the high competitive intensity of the semi-conductor devices industry and the exposure of RIRL's revenues to demand indicators from the electronic equipment industry. Any shortfall in the same might impact the company's financial profile.

ICRA expects RIRL's revenue growth to remain stagnant in FY2017 due to modest sales recorded in the first half of the current year and the weak order book position of Rs. 9.11 crore as on December 31, 2016, for customised products. The company's ability to scale-up its operations, while maintaining its profit margin amid intense competition from established players and managing price risks, will be the key rating sensitivities. Furthermore, the revenue growth will necessitate additional funds to meet the incremental working capital requirement, due to working capital intensive operations. Efficient management of working capital cycle will also remain critical in determining the company's profile.

**Key rating drivers**

**Credit Strengths**

- Long track record of promoters in the manufacturing of semi-conductor devices and power equipment;
- Pre-qualification status from various reputed private and PSUs;
- Strong in-house manufacturing capability and technical know-how for manufacturing semi-conductor devices.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

**Credit Weakness**

- Modest scale of operations;
- High working capital intensity of operations due to high inventory holding period and low bargaining power with customers, which has resulted in high receivables period;
- Competitive pressures from both unorganised as well as organised players;
- Operations remain exposed to demand indicators from electronic equipment industry and any shortfall in the same may adversely impact revenues.

**Detailed description of key rating drivers highlighted above**

RIRL benefits from its association with Silicon Power Corporation (SPC) USA (having common promoters), which provides technical knowhow to the company for manufacturing high power semiconductor devices. RIRL supplies semiconductor devices and power equipment to various clients across diverse sectors, most important being engineering sector, electronic equipment manufacturers, and traders/dealers of semi-conductor devices. The company has a pre-qualification status from various PSUs such as Steel Authority Of India Ltd. (SAIL), Bharat Heavy Electricals Ltd. (BHEL), Hindustan Aeronautics Ltd. (HAL), Oil and Natural Gas Corporation (ONGC), Nuclear Power Corporation of India Ltd., Bhabha Atomic Research Centre (BARC), etc., for RIRL's principal products like diodes, thyristors, bridge rectifiers, power modules, high power stacks, battery chargers and high current rectifiers. The company's scale of operations is modest. The net working capital intensity remains high on account of slow receivables and high inventory levels. High inventory level also exposes the company's profitability to raw material fluctuation risks. The competition from established players in the industry will continue to exert downward pressure on revenues and profit margin.

**Analytical approach:** Not Applicable

**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

**About the Company:**

Promoted by Mr. J.E. Ruttonsha in 1969, RIRL manufactures semi-conductor devices and high power equipment for domestic as well as international markets. In 2005, the company was taken over by Dr. Harshad Mehta and Mrs. Bhavna H. Mehta, the promoters of Silicon Power Corporation (SPC), USA. The company went public in 1986 and was listed on the Bombay Stock Exchange. RIRL's promoters and promoter group hold 73.13% stake in the company. It has a manufacturing unit at Halol (Gujarat). The company's product profile includes diodes, rectifiers, thyristors, inverters, UPS systems, battery chargers, stacks, modules and rectifier assemblies.

RIRL recorded a net profit after tax of Rs. 0.95 crore on an operating income of Rs. 28.42 crore for the year ending March 31, 2016. The company has recorded a net profit after tax of Rs. 0.56 crore on an operating income of Rs. 13.50 crore in the first six months of FY2017.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

| S.No | Name of Instrument | Current Rating (2017) | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Date & Rating | Date & Rating in FY2016 | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | | | | February 2017 | February 2016 | June 2015 | April 2014 |
| 1 | Cash Credit | Long –term | 8.00 | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) |
| 2 | Bank Guarantee | Short-term | 1.00 | [ICRA]A4+ | ICRA]A4+ | ICRA]A4+ | [ICRA]A4+ |
| 3 | Letter of Credit | Short-term | 0.10 | [ICRA]A4+ | ICRA]A4+ | ICRA]A4+ | [ICRA]A4+ |
| 4 | Unallocated amount | Long-term/Short-term | 0.90 | [ICRA]BB+ (Stable)/ [ICRA]A4+ | - | - | - |

**Complexity level of the rated instrument:**
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1**

**Details of Instrument**

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|---|---|---|---|---|---|
| Cash Credit | - | - | - | 8.00 | [ICRA]BB+ (Stable) |
| Bank Guarantee | - | - | - | 1.00 | [ICRA]A4+ |
| Letter of Credit | - | - | - | 0.10 | [ICRA]A4+ |
| Unallocated Amount | - | - | - | 0.90 | [ICRA]BB+ (Stable)/ [ICRA]A4+ |

**Name and Contact Details of the Rating Analyst(s):**


**Subrata Ray**
+91 22 6114 3408
subrata@icraindia.com

**Suprio Banerjee**
+91 22 61143443
supriob@icraindia.com

**Rupa Pandey**
+91 22 61143456
rupa.pandey@icraindia.com

**Pragya Sharma**
+91 22 61143454
pragya.sharma@icraindia.com


**Name and Contact Details of Relationship Contacts:**


**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

**Registered Office**
**ICRA Limited**
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**
**Mr. Vivek Mathur**
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

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|---|---|
| **Mumbai**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>3rd Floor, Electric Mansion<br>Appasaheb Marathe Marg, Prabhadevi<br>Mumbai—400025,<br>Board : +91-22-61796300; Fax: +91-22-24331390 | **Kolkata**<br>**Mr. Jayanta Roy**<br>Mobile: **+91 9903394664**<br>Email: jayanta@icraindia.com<br><br>A-10 & 11, 3rd Floor, FMC Fortuna<br>234/3A, A.J.C. Bose Road<br>Kolkata—700020<br>Tel +91-33-22876617/8839 22800008/22831411,<br>Fax +91-33-22870728 |
| **Chennai**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>5th Floor, Karumuttu Centre<br>634 Anna Salai, Nandanam<br>Chennai—600035<br>Tel: +91-44-45964300; Fax: +91-44 24343663 | **Bangalore**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>'The Millenia'<br>Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,<br>Murphy Road, Bangalore 560 008<br>Tel: +91-80-43326400; Fax: +91-80-43326409 |
| **Ahmedabad**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>907 & 908 Sakar -II, Ellisbridge,<br>Ahmedabad- 380006<br>Tel: +91-79-26585049, 26585494, 26584924; Fax:<br>+91-79-25569231 | **Pune**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range<br>Hills Road, Shivajinagar,Pune-411 020<br>Tel: + 91-20-25561194-25560196; Fax: +91-20-<br>25561231 |
| **Hyderabad**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj<br>Bhavan Road, Hyderabad—500083<br>Tel:- +91-40-40676500 | |