February 25, 2020

Ruttonsha International Rectifier Limited: Update on Material Event; ratings reaffirmed, outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	8.00	8.00	[ICRA]BB+ reaffirmed; outlook revised to Stable from Positive
Bank Guarantee	1.00	1.00	[ICRA]A4+; reaffirmed
Letter of credit	0.10	0.10	[ICRA]A4+; reaffirmed
Unallocated amount	0.90	0.90	[ICRA]BB+/ [ICRA]A4+ reaffirmed; outlook revised to Stable from Positive
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Material Event

Ruttonsha International Rectifier Limited (RIRL) has announced its quarterly results on February 12, 2020. The company reported an operating income (OI) of Rs. 8.82 crore with net profit of Rs. 0.61 crore in Q3 FY2020 against an OI of Rs. 11.82 crore with net profit of Rs. 0.60 crore in Q3 FY2019. For the 9M FY2020, RIRL has reported a net profit of Rs. 1.71 crore on (net profit of Rs. 1.51 crore in 9M FY2019) an OI of Rs 27.52 crore (against Rs. 32.48 crore in 9M FY2019).

Impact of the Material Event

ICRA has reaffirmed the long-term rating at [ICRA]BB+ (pronounced ICRA double B plus) and has also reaffirmed the short-term rating at [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 10.00 crore bank lines of the company. The outlook on the long-term rating has been revised to Stable from Positive.

Rationale

The revision in outlook factors in the moderation in performance in 9M FY2020 with decline in sales and profitability reported, driven by subdued demand conditions and lower execution leading to under absorption of costs. The same is likely to put pressure on the full year performance and underperform compared to earlier estimated by ICRA. There has been a decline in Y-o-Y performance. The company's operating income in Q3 FY2020 was lower by 25% in comparison to Q3 FY2019. Its operating margin in Q3 FY2020 has declined to 9.07% from 12.58% in Q3 FY2019 mainly on account of lower sales leading to lower absorption of costs. The interest coverage indicator has also weakened as depicted by interest coverage of 3.88 times as on December 31, 2019 over 5.49 times as on December 31, 2018.

Further, the ratings are, constrained by the company's modest scale of operations, high working capital intensity on account of high inventory days and stretched receivables following low bargaining power with its customers. The ratings also factor in the stiff competition in the semi-conductor devices industry and the exposure of its profitability to fluctuation in raw material prices, given the high levels of inventory held.

The ratings reaffirmation continues to take into account the promoter's extensive experience in the manufacturing of semi-conductor devices and power equipment. ICRA notes Ruttonsha International Rectifier Limited's (RIRL) strong in-house technical and manufacturing capability and its pre-qualification status from various reputed private and public-sector undertakings (PSUs).

The Stable outlook on the [ICRA]BB+ rating reflects that RIRL will continue to benefit from the extensive experience of its promoters and key management personnel as well as its technical collaboration with Silicon Power Corporation (SPC), USA. However, the recovery process for growth remains to be seen given the overall slowdown in economy and ICRA will continue to monitor the development regarding scaling up of operations as well as its impact on margins and coverage indicators.

Key rating drivers

Credit strengths

Extensive track record of promoters in manufacturing semi-conductor devices - Incorporated in 1969, RIRL manufactures semi-conductor devices and high-power equipment. The directors and key management personnel are well qualified with an experience of around four decades in the field of electronics, which has helped the company to establish its position in the market and cater to well-reputed players in the private as well as public sectors.

Pre-qualification status from reputed private and PSUs - RIRL enjoys a pre-qualification status from various reputed PSUs such as the Indian Railways, Bharat Heavy Electricals Ltd. (BHEL), and others. Although sales generation through the tender route remains limited and RIRL transacts directly as well as through a network of non-exclusive dealers with its end-customers, the pre-qualification status from various PSUs permits it to execute orders for the above entities.

Strong in-house manufacturing and technical capability for manufacturing semi-conductor devices - RIRL has a manufacturing unit at Halol in Vadodara (Gujarat) with an in-house facility for fabrication, soldering, encapsulation and testing. The entry barriers in terms of technical expertise for manufacturing high-power semi-conductor devices are fairly high, and the company benefits from its association with Silicon Power Corporation (SPC), USA, which provides the technical knowhow. SPC also undertakes the marketing of certain product ranges of RIRL in the USA.

Credit challenges

Modest scale of operations - The entity's scale of operations continues to remain modest, restricting economies of scale and operational flexibility. In 9M FY2020, RIRL reported a de-growth in revenues of 15% to report an OI of Rs. 27.52 crore as compared to Rs. 32.28 crore in 9M FY2019, owing to slow demand conditions. Going forward, topline growth will rely on overall growth in the economy which will lead to higher execution.

High working capital intensity of operations due to high inventory holding period and stretched receivables - The company's net working capital intensity (NWC/OI) remained high on account of its high inventory and slow receivables. High reliance on import, a lengthy manufacturing cycle and diversified product range lead to high inventory holding. Additionally, the general credit period offered by the company to its customers is up to 90 days, but the receivables position is stretched to almost 150-170 days because of delays from larger customers. Although reduced inventory level following liquidation of slow-moving stocks and faster collection of receivables, led to an improved NWC/OI to 50% as on March 31, 2019 over 67% as on March 31, 2018, inventory levels have increased again as on December 31, 2019 due to slower sales.

Stiff competition from both unorganised and organised players - In the basic semi-conductor devices segment, the company faces intense competition from local unorganised players as well as from the cheap Chinese imports. The prices for basic semi-conductor devices are very competitive and hence command low margins. In the special semi-conductor devices segment, though the profitability margins remain healthy, RIRL has to compete with large multi-national companies like ABB Limited, Westcode Semiconductors (USA), Powerex Corporation, etc, which mainly manufacture semi-conductor devices for high-power applications.

Profitability susceptible to raw material price fluctuation due to high inventory levels - The major raw materials utilised by the company comprise silicon wafers and copper, which accounts for ~45-50% of the total raw material requirement.

High inventory levels and periodic arrangement with customers exposes RIRL's margin to fluctuations in raw material prices. However, it is able to pass on the variation in costs to customers to an extent because of its established relationships with its customers.

Liquidity position: Adequate

The liquidity position of RIRL is adequate given the moderate utilisation of the working capital limits (average utilisation of 53% of the fund-based sanctioned limit in September 2019 and 41% in December 2019). Further, absence of any long-term debt repayments provides comfort.

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Positive if there is significant improvement in RIRL's scale of operations and profitability. Improvement in liquidity profile by efficiently managing its working capital cycle will also remain critical for a rating upgrade.

Negative triggers – Negative pressure on the rating could arise if RIRL's scale and profitability margins show sustained deterioration. Moreover, further deterioration of working capital cycle which will impact the liquidity position materially could also exert downward pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	N.A.
Consolidation / Standalone	Standalone - The ratings are based on the standalone financial profile of the company

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. The semi-conductor devices include diodes, rectifiers, thyristors and others, ranging from 10 amps to 12,000 amps with voltage groups ranging from 200V to 5,000V. Its equipment category includes inverters, UPS systems, battery chargers, stacks, modules and rectifier assemblies. In 2005, it was taken over by Dr. Harshad Mehta and Mrs. Bhavna H. Mehta, the promoters of Silicon Power Corporation, 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).

In FY2019, the company reported a net profit of Rs. 2.59 crore on an operating income (OI) of Rs. 43.05 crore, as compared to a net profit of Rs. 0.79 crore on an OI of Rs. 31.80 crore in the previous year. In 9M FY2020, on a provisional basis RIRL reported a net profit of Rs. 2.59 crore on an operating income (OI) of Rs. 43.05 crore

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Unaudited)
Operating Income (Rs. crore)	31.80	43.05	27.52
PAT (Rs. crore)	0.79	2.59	1.71
OPBDIT/OI (%)	10.68%	11.84%	11.01%
RoCE (%)	8.54%	15.24%	-
Total Debt/TNW (times)	0.58	0.38	-
Total Debt/OPBDIT (times)	3.01	1.50	-
OPBDITA/Interest and Finance charges	2.49	5.12	4.68
DSCR	2.39	3.49	-

Source: Financial statements of RIRL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
					25-Feb-20	20-Jun-19	29-Mar-19	3-Apr-18	23-Aug-17	3-Feb-17
1	Cash Credit	Long Term	8.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	[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+	[ICRA]A4+	[ICRA]A4+
3	Letter of Credit	Short Term	0.10	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Unallocated amount	Long Term/Short Term	0.90	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Positive)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	8.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	0.10	[ICRA]A4+
NA	Unallocated amount	NA	NA	NA	0.90	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Ruttonsha International Rectifier Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
N.A.	N.A.	N.A.

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