May 31, 2024

Rockwell Industries Ltd.: Ratings reaffirmed.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based/Cash credit	40.00	40.00	[ICRA]BBB+ (Stable); Reaffirmed
Short-term - Non-fund based	25.00	25.00	[ICRA]A2; Reaffirmed
Total	**65.00**	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Rockwell Industries Ltd. (RIL) considers its healthy operating performance, estimated growth in revenues and operating profits, along with comfortable debt protection metrics in FY2024 and FY2025. RIL's revenues are estimated to rise by around 25% in FY2024 (PY: Rs. 248.4 crore), aided by improvement in domestic demand and expansion into newer customer segments. Moreover, the operating profits are likely to increase by around 33% in FY2024, driven by healthy revenue growth and better absorption of fixed costs. The company's healthy performance is expected to sustain in FY2025 as well. The low debt levels and rise in operating profits supported the strong debt protection metrics, with estimated TD/OPBIDTA at 0.8 times and DSCR at 8.8 times in FY2024. The debt protection metrics are likely to remain comfortable in the medium term. The rating favourably factors in the established track record of over three decades in the commercial refrigeration industry and its established relationship with a diversified customer base. Further, RIL has been continuously expanding its dealership network with total dealers increasing to 214 in FY2024 from 66 in FY2018, thereby aiding revenue growth, while enabling control over the receivable cycle as it does not offer credit period to the dealers.

The ratings, however, remain constrained by the moderate scale of operations and high working capital intensity owing to the nature of the business, though it has decreased to 19% in FY2024 from 23% in FY2023 due to improvement in debtor days. However, the inventory days continue to remain high, given the seasonality in sales. With major portion of sales taking place during January to June, the financial year-end inventory levels remain high. The ratings factor in the intense competition in the commercial refrigeration industry with presence of large domestic players and cheap imports from China limiting the company's pricing flexibility. RIL's profitability remains susceptible to fluctuations in input prices such as steel and copper prices.

The Stable outlook reflects ICRA's opinion that RIL will continue to sustain its healthy operating performance, maintain comfortable debt protection metrics and adequate liquidity.

Key rating drivers and their description

Credit strengths

Estimated improvement in revenues and operating profits in FY2024 and FY2025; comfortable debt protection metrics – RIL's performance continued to be healthy with estimated growth in revenues and operating profits, along with comfortable debt protection metrics in FY2024 and FY2025. Its revenues are estimated to grow by around 25% in FY2024 (PY: Rs. 248.4 crore), aided by improvement in domestic demand and expansion into newer customer segments. Moreover, the operating profits are likely to increase by around 33% in FY2024, driven by healthy revenue growth and better absorption of fixed costs. The company's healthy performance is expected to sustain in FY2025 as well. The low debt levels and rise in operating profits supported the strong debt protection metrics, with estimated TD/OPBIDTA at 0.8 times and DSCR at 8.8 times in FY2024. The debt protection metrics are likely to remain comfortable in the medium term.

Established track record in commercial refrigeration industry – The company has an established track record with over three decades of experience in the commercial refrigeration industry manufacturing products such as freezers, eutectic freezers, visi-coolers, and push-cart freezers. RIL produces energy efficient products such as eutectic freezers and solar freezers, which are sold under the Rockwell brand. The company has two manufacturing units with a total production capacity of 2,00,000 units per year (increased from 1,50,000 units per year in FY2024), at Medchal, in Telangana.

Established customer base and expanded distribution network – RIL had been supplying to major players in the beverage, ice cream and dairy segments over the years. The customer concentration is low with top five customers accounting for 24% of revenues in 11M FY2024. Further, the company has been continuously expanding its dealership network with total dealers increasing to 214 in FY2024 from 66 in FY2018, thereby aiding revenue growth, while enabling control over the receivable cycle as it does not offer credit period to the dealers.

Credit challenges

High working capital intensity – RIL's working capital intensity remains high owing to the nature of the business, though it has improved to 19% in FY2024 from 23% in FY2023 due to decline in debtor days to 53 as on March 31, 2024, from 76 as on March 31, 2023. However, the inventory days continue to remain high, given the seasonality in sales. With major portion of sales taking place during January to June, the financial year-end inventory levels remain high.

Profitability exposed to competitive pressures and fluctuations in input prices – The competition in the commercial refrigeration industry is high with the presence of large domestic players and cheap imports from China limiting the company's pricing flexibility. Its profitability remains susceptible to any fluctuations in the input prices such as steel and copper prices.

Liquidity position: Adequate

RIL's liquidity position is adequate with free cash and liquid investments of Rs. 37.4 crore as on March 31, 2024. The average working capital utilisation during the 11-month period that ended in February 2024 stood at 57% against the sanctioned limits. The company has debt repayment obligations of Rs. 1.37 crore for FY2025 which can be comfortably serviced through estimated cash flow from operations. Further, RIL has capex plans of Rs. 10 crore in FY2025 which is expected to be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade RIL's ratings if there is any significant growth in revenues and operating profitability along with improvement in the working capital cycle strengthening its liquidity, while maintaining healthy debt coverage metrics on a sustained basis.

Negative factors – Pressure on RIL's ratings could arise if there is any significant decline in revenues and profitability or a stretch in the working capital cycle, or a significant debt-funded capex, which weakens the debt protection metrics and liquidity position. Specific credit metrics that could lead to a revision of RIL's rating includes Total Debt/OPBITDA greater than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 1986, Rockwell Industries Ltd. (RIL) manufactures commercial refrigeration appliances such as freezers, eutectic freezers, water coolers, and push-cart freezers, as well as kitchen refrigeration appliances including stainless steel cabinets in horizontal and vertical forms. It has two manufacturing units at Medchal, Telangana. The company is promoted by Mr. Ashok K. Gupta, who has more than three decades of experience in the commercial refrigeration industry.

Key financial indicators (audited)

Rockwell Industries Limited	FY2022	FY2023	9M FY2024*
Operating income	175.2	248.4	193.0
PAT	13.9	23.3	21.1
OPBDIT/OI	12.1%	13.1%	14.2%
PAT/OI	7.9%	9.4%	10.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.7
Total debt/OPBDIT (times)	1.4	1.0	1.0
Interest coverage (times)	11.6	11.7	10.6

*Source: Company, ICRA Research; *provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					May 31, 2024	-	Feb 17, 2023	Sep 09, 2022	Jul 30, 2021
1	**Fund-based/CC**	Long term	40.00	--	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive))
2	**Non-fund based**	Short term	25.00	--	**[ICRA]A2**	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+
3	**Unallocated limits**	Long term	0.00	--	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Cash credit	Simple
Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based/Cash credit**	NA	NA	NA	40.00	[ICRA]BBB+ (Stable)
NA	**Non-fund based**	NA	NA	NA	25.00	[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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