

Rajratan Global Wire Limited

| Instrument | Amount Rated | Rating Action |
|--------------------------------------|---|------------------------------------|
| Long Term - Fund Based - Term Loans | Rs. 23.23 crore (increased from Rs. 21.85 crore) | [ICRA]BBB (Positive) (Upgraded) |
| Long Term - Fund Based – Cash Credit | Rs. 40.25 crore | [ICRA]BBB (Positive) (Upgraded) |
| Long Term - Non Fund-Based | Rs. 13.00 crore | [ICRA]BBB (Positive) (Upgraded) |
| Long Term - Unallocated | Rs. 2.41 crore (increased from Rs. 0.79 crore) | [ICRA]BBB (Positive) (Upgraded) |
| Short Term – Fund-Based | Rs. 5.00 crore (reduced from Rs. 8.00 crore) | [ICRA]A3+ (Upgraded) |
| Short Term - Non Fund-Based | Rs. 39.11 crore | [ICRA]A3+ (Upgraded) |

ICRA has upgraded the long term rating to [ICRA]BBB (pronounced as ICRA triple B) from [ICRA]BBB- (pronounced as ICRA triple B minus) for the Rs. 78.89 crore¹ (increased from Rs. 75.89 crore) fund-based and non fund-based bank facilities of Rajratan Global Wire Limited (RGWL)². The outlook on the long term rating has been revised to positive from stable. ICRA has also upgraded the short term rating to [ICRA]A3+ (pronounced as ICRA A three plus) from [ICRA]A3 (pronounced as ICRA A three) for the Rs. 44.11 crore (reduced from Rs. 47.11 crore) bank facilities of RGWL.

The rating upgrade takes into consideration the improvement in the operations of the overseas subsidiary, which has in turn strengthened the consolidated financial profile and has also eased the liquidity position. In FY2016, RTWL, the overseas subsidiary of RGWL demonstrated improved utilization of installed capacities on a consistent basis, whereby the production grew by 34% to 17,044 MT from 12,714 achieved in FY2015. This improvement was supported by regular and sizeable orders received from a reputed global tyre manufacturer subsequent to resolution of quality issues that had arisen in the past. The corresponding improved capacity utilization of 79% in FY2016 vis-a-vis 59% in FY2015 supported substantial improvement in profitability of the Thai unit given the high operating leverage. Also, while the aforementioned factors facilitated a cash profit of about Rs. 10 crore in FY2016 for the Thai unit compared to cash loss in FY2015, the Indian unit also reported improvement in operating profits and cash accruals backed by marginal improvement in a already healthy capacity utilization (~87% in FY2016) and benefits from decline in raw material prices. Since the cash losses of the Thai unit were funded through elongated credit from Indian operations, this improvement has resulted in an overall improvement in the liquidity profile of the company on standalone as well as consolidated basis.

RGWL achieved cash accruals of Rs. 22.4 crore in FY2016 on a consolidated basis compared to Rs. 7.9 crore reported in FY2015. The reduced debt levels and higher operating profits have in-turn driven significant improvement in debt metrics as reflected by TD/OPBDITA of 2.4x for FY2016 vis-à-vis 5.0x for FY2015. Also, the capital structure has eased due to healthy accretion to reserves in FY2016. Gearing [TD/(TNW+MI)] on a consolidated basis has declined to 1.5x as on Mar'16 from 2.4x as on Mar'15. Further, given the sustained trend in capacity utilization of overseas unit and healthy order book position, the consolidated financial profile of RGWL is expected to continue to strengthen and hence outlook on the long term rating is positive.

The assigned ratings continue to take into account RGWL's strong position as a leading manufacturer of Tyre Bead Wire with highest market share in India and sole³ local supplier status to tyre manufacturers in Thailand. The company's operational profile benefits from established business relationships in the domestic market as reflected by a healthy share of business with all the leading tyre manufacturers in India. These operational strengths have in-turn supported a track record of stable and adequate profitability of the Indian unit.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Balance requirements are met through imports



However, as RGWL's products largely find application in automobile tyres, the demand will continue to remain exposed to cyclical in automobile industry, and profitability will remain susceptible to variation in steel prices, which are characterized by high volatility. Further, given the high dependence upon single product category (i.e. tyre bead wire), the company is exposed to any change in technology related to manufacturing of tyres. Also, notwithstanding the long standing relationships with leading tyre manufacturers and healthy order book position, ICRA notes that overseas unit's performance in the past had been hampered by quality issues, which have been subsequently resolved, but any reoccurrence of same can adversely impact the operational and financial performance at consolidated level and will remain a monitorable. The size, timing and funding of capex and/or acquisition in the future will remain a sensitivity besides the extent of improvement in the capacity utilization of the Thai unit.

Furthermore, while the liquidity has eased considerably due to improved profitability and cash accruals, the overseas unit continues to be highly dependent on supplier funding due to inadequate capitalization resulting from accumulated losses. Thus, timely enhancement in working capital facilities from banks or support from parent company will remain crucial for funding the growing working capital requirements.

Company Profile

Rajratan Global Wire Limited (RGWL), along with its wholly owned overseas subsidiary Rajratan Thai Wire Limited (RTWL), is primarily engaged in the manufacturing of steel wires with a specialization in Tyre Bead Wire (TBW), which is a bronze coated high carbon steel wire used in tyres. RGWL also manufactures other specialized steel wires like rope wires, spring wires etc.

RGWL's domestic manufacturing unit located in Pithampur (Madhya Pradesh) has an installed capacity of 36,000 MTPA for manufacturing of steel wires, and its subsidiary, RTWL, whose manufacturing facility is located in Ratchaburi (Thailand) has an installed capacity of 21,600 MTPA. Both these manufacturing facilities are approved vendors of leading tyre manufacturers in domestic as well as international market. The client list of RGWL includes tyre manufacturers like Apollo Tyres Limited, MRF Limited, Ceat Limited, J.K. Tyre & Industries Limited, and Birla Tyres. As per ICRA's estimates, RGWL enjoys highest market share in domestic market, while RTWL is the sole local supplier of TBW in Thailand.

Recent Results

In FY2016, RGWL achieved a consolidated Operating Income (OI) of Rs. 282.8 crore and Profit after Tax (PAT) of Rs. 16.3 crore against a consolidated OI of Rs. 273.6 crore and PAT of Rs. 1.7 crore reported in FY2015. On a standalone basis, RGWL achieved an OI of Rs. 206.90 crore and PAT of Rs. 9.64 crore in FY2016 compared to OI of Rs. 239.01 crore and PAT of Rs. 6.38 crore achieved in FY2015.

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