

May 24, 2019

Rajratan Global Wire Limited: [ICRA]A- (Positive) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	0.0	[ICRA]A- (Positive); Assigned
Total	0.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in Rajratan Global Wire Limited's (RGWL, along with its 100% owned Thai subsidiary, Rajratan Thai Wire Limited/RTWL) leading position as a manufacturer of tyre bead wire (TBW). The company has established business relationships and a healthy share of business (SOB) with almost all the leading tyre manufacturers in India including Apollo Tyres Limited (Apollo), MRF Limited (MRF), Ceat Limited (CEAT), Balkrishna Industries Limited (BKT), Bridgestone India Private Limited (BIPL), Birla Tyres (Birla) among others. The rating is supported by the high entry barriers in the TBW industry due to the long approval cycle by tyre manufacturers owing to the criticality of the product.

The rating remains constrained by the limited value addition in the company's business operations as reflected in by moderate margins, as well as the susceptibility of its profitability to volatility in steel prices. Limited product diversification, with a major share of its revenues being derived from TBW, makes RGWL dependent on the performance of the tyre industry. This exposes it to cyclicalities in the automobile industry as well as the demand in the replacement market. With the automobile production levels declining in the recent months and demand prospects remaining muted for the current fiscal, any prolonged weakness may constrain the volume ramp up for RGWL. Notwithstanding the steady ramp up in supplies to various tyre manufacturers in Thailand by its subsidiary over the last three years, RTWL's business remains vulnerable to any changes in tariff structures imposed by the US as the unit targets revenue growth through incremental sales to Chinese tyre manufacturers in Thailand.¹ Similarly, RGWL's supplies to tyre companies in India remains vulnerable to changes in tariff structures imposed by the Indian Government on Chinese tyre manufacturers.²

ICRA notes the capacity expansion undertaken by the company in its Indian unit in the wake of strong tyre demand in FY2019 resulted in a 43% revenue growth. Additionally, large capacity addition planned by the Indian tyre manufacturers augurs well for the medium-term revenue growth prospects even as tyre manufacturers remain exposed to near-term

¹In response to the anti-dumping duties (ADD) imposed by the US on China, several Chinese tyre manufacturers have incrementally set up their manufacturing units in Thailand, where they are required to procure a certain minimum raw material requirement through the local manufacturers. This has directly aided RTWL's sales with the company being able to capture business from these Chinese tyre manufacturers in a short span. Going forward, the management expects this to be RTWL's primary driver of growth and as a result, its sales are directly exposed to the tariff structures imposed by the US on China.

²In 10MFY2019 there has been a steady decline in tyre imports into India subsequent to re-imposition of five-year ADD on import of new Chinese truck and bus radial (TBR) tyres in September 2017 and 5% increase in customs duty in April 2018. As such, any changes in tariff structures imposed by India could directly affect the production volume of the domestic tyre manufacturers, which can have a direct impact on RGWL's revenues.

demand challenges on account of slowing automobile production. Notwithstanding the expectations of a healthy revenue growth, the incremental debt to fund this capex as well as need for higher working capital resulted in a marginal deterioration in its gearing in FY2019. The moderation in capital structure is likely to be temporary, with healthy cash accruals, over the next three to four years, following ramp up in supplies anticipated to support a steady improvement in its financial risk profile.

Outlook: Positive

The Positive outlook reflects ICRA's belief that RGWL is likely to achieve healthy revenue growth as well as earnings on the back of volume ramp-up with its existing customers in India and Thailand as well as some new customers in Thailand. This is anticipated to lead to an improvement in the credit profile over the medium term (Total Debt/OPBDITA expected to reach levels of 1.2-1.6 times by FY2022 from 2.5 times in FY2019). The rating may be revised upwards if the company is able to ramp up its volume quicker than expected and improve its profitability, thereby leading to better coverage indicators. The outlook may be revised to Stable if slower-than-expected scale up in business, along with sizeable debt-funded capex leads to a weakening of the company's credit metrics.

Key rating drivers

Credit strengths

Leading position as a manufacturer of TBW in India: RGWL is one of the largest manufacturers of TBW in India (capacity of 40,500 MT as on December 31, 2018³). It enjoys established relationships and healthy share of business (SOB) with its clientele consisting of the major tyre manufacturers like Apollo, CEAT, MRF, BIPL, BKT, Birla, among others. Benefitting from strict adherence to quality and delivery schedules, while being price competitive, RGWL has been able to secure repeat orders from the large tyre manufacturers. This helps in maintaining a market share of ~35-40% in the domestic market. The company's subsidiary, RTWL (with a capacity of 34,800 MT as on December 31, 2018), is the sole manufacturer of TBW in Thailand, with supplies to tyre manufacturers like Sumitomo, Otani, ZC Rubber, Century Tyres, Double Coin Tyre etc.

Expectations of healthy revenue growth: RGWL is expected to grow at a healthy CAGR of 10- 12% between FY2019 and FY2022, aided by an increase in supplies. In light of the this expected ramp up in volume, the company is in the process of expanding its capacity in the Indian unit to 60,000 MT/annum (expected completion by May 2019; further expansion proposed to 72,000 MT in the next two years) from 36,000 MT/annum in FY2018. Benefitting from healthy export growth that aided ramp up of supplies in RTWL during FY2017-2018, the company already completed capacity expansion in its Thai unit to 34,800 MT/annum in FY2019 from 26,000 MT/annum in FY2018. While the domestic demand for TBW is likely to be driven by domestic tyre manufacturers undertaking incremental capacity expansion, the demand growth for TBW in Thailand is being driven by increasing orders from the Chinese tyre manufacturers setting up their units in Thailand, in response to the ADD imposed by the US on China.

High barriers to entry: TBW is a critical component of a tyre and as such, there are very strict norms on its quality. Almost every tyre manufacturer has an independent process to approve TBW of a particular manufacturer and this can take a long time. As a result, the entry barriers to this particular sub-industry are particularly high, which restricts the number of major players in the Indian TBW industry. The major domestic players in this industry include RGWL, Tata Steel Limited and Aarti Steels Limited and the major foreign players are KISWIRE Ltd. and Hyosung.

³The company is in the process of capacity expansion to 60,000 MT by May 2019 from 36,000 MT in FY2018 with further expansion to 72,000 MT planned within the next two years.

Credit challenges

Limited value addition and susceptibility of profitability to variation in steel prices: Value addition in RGWL's business remains limited as reflected by its moderate operating margin (OPBDIT/OI of 10.6% in FY2019). Moreover, the margin remains susceptible to volatility in steel prices. Though there are provisions to pass on the changes in raw material prices to its customers, there have been delays in passing the same in the past, which adversely impacted its margins. Additionally, the stiff competition in the industry limits its ability to completely pass on price hikes in a timely manner.

Exposure to cyclical in automobile industry: The TBW segment growth is directly linked to the prospects of the tyre industry (including demand in the replacement market), which relies on the automobile sector growth. The demand for automobiles remains dependent on factors such as economic and income growth, interest rates, fuel prices, availability of public transportation facilities, consumer sentiments. While demand from end-user segments such as passenger vehicles has strong linkages to consumer sentiments, segments such as tractors and commercial vehicles remain inherently cyclical in nature, with the industry volume strongly correlated to the level of economic activity in the country. Thus any negative movement in these factors would result in subdued demand for automobiles, which will have an adverse impact on TBW demand. The current moderation in automobile demand, if persists, can adversely impact RGWL's revenue scale up plans in the near term.

Vulnerability to tariff and trade restrictions: RTWL, the Thai unit of RGWL, witnessed steady growth in business driven by demand from the Chinese tyre manufacturers, which have set up their units in Thailand over the past two years. The company expects to derive incremental revenues from these manufacturers. However, the Thai unit's sales remain exposed to changes in any trade restrictions imposed by its key destinations like the US. Similarly, RGWL's Indian unit's performance in FY2018 and 9M FY2019 was favourably impacted by the increased demand for tyres manufactured in India, subsequent to imposition of ADD on Chinese TBR as well as increased customs duty in tyre imports. Thus, the Indian unit's sales also remain exposed to changes in tariff structures implemented by the Indian Government.

Liquidity position

The company's cash flows from operations remained healthy over the past three fiscals, aided by a stable operating performance. However, its free cash flows came under pressure in FY2019 on the back of sizeable capacity expansion, much of which was funded through bank loans. However, a healthy growth in its operating income (OI) along with stable profitability is expected to lead to healthy medium-term cash flows. Overall, healthy cash accruals along with moderate undrawn lines of credit are expected to support its liquidity profile. RGWL's annual debt repayments are spread over a relatively longer tenure and would be met through its cash accruals.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RGWL. As on March 31, 2018, the Company had one subsidiary, that is enlisted in Annexure-2.

About the company

RGWL, along with its wholly-owned overseas subsidiary, RTWL, is primarily involved in manufacturing of high carbon steel wires with specialisation in TBW, which is a bronze-coated high-carbon steel wire used in tyres. TBW's main function is to act as reinforcement and facilitate grip of the tyre on the rim and is used in all kinds of automobile, earth-moving equipment and aircraft tyres. RGWL also manufactures drawn steel wire (also known as 'black wire'), which is used in the automobile, construction and engineering industries.

RGWL has two manufacturing units in Pithampur (Madhya Pradesh) and Ratchaburi (near the port in Thailand). The Pithampur unit has an installed capacity of 40,500 MT/annum (as on December 31, 2018), which will be expanded to 60,000 MT/annum by May 2019 (and further to 72,000 MT in the next two years depending on demand). The Ratchaburi unit has an installed capacity of 34,800 MT/annum (as on December 31, 2018). Both these manufacturing facilities are approved vendors of leading tyre manufacturers in the domestic as well as international markets. Its key customers include tyre manufacturers like Apollo, MRF, BKT, CEAT, BIPL, Birla etc. While RGWL enjoys a predominant market share in the domestic market for TBW, RTWL is the sole local supplier of TBW in Thailand.

Key financial indicators (audited)

	FY2017	FY2018	FY2019
Operating Income (Rs. crore)	283.4	344.6	492.9
PAT (Rs. crore)	18.9	17.1	26.7
OPBDIT/OI (%)	14.5%	9.7%	10.6%
RoCE (%)	20.2%	16.2%	19.4%
Total Debt/TNW (times)	1.0	0.9	1.0
Total Debt/OPBDIT (times)	2.3	2.9	2.5
Interest Coverage (times)	3.9	3.8	4.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Issuer Rating	0.0	-	May 2019 [ICRA]A- (Positive)	-	August 2017	June 2016
2	Fund-based bank facilities	-	-	-	-	Withdrawn	[ICRA]BBB (Positive)
3	Non-fund based bank facilities	-	-	-	-	Withdrawn	[ICRA]BBB (Positive)
4	Unallocated	-	-	-	-	Withdrawn	[ICRA]BBB (Positive)
5	Fund-based bank facilities	-	-	-	-	Withdrawn	[ICRA]A3+
6	Non-fund based bank facilities	-	-	-	-	Withdrawn	[ICRA]A3+

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	Issuer Rating	NA	NA	NA	0.0	[ICRA]A- (Positive)

Source: RGWL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rajratan Thai Wire Limited	100.00%	Full Consolidation

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