

March 25, 2021

## Rajratan Global Wire Limited: Ratings upgraded to [ICRA]A (Stable)/ [ICRA]A1

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	0.00	0.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based - Term Loan	48.39	48.39	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based - Cash Credit Facilities	65.25	65.25	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based/Non-fund Based Facilities	10.00	10.00	[ICRA]A (Stable)/ [ICRA]A1 upgraded; upgraded from [ICRA]A- (Stable)/ [ICRA]A2+
Non-fund Based Facilities	52.36	52.36	[ICRA]A1; upgraded from [ICRA]A2+
<b>Total</b>	<b>176.00</b>	<b>176.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade takes into account the continuation of Rajratan Global Wire Limited's (from hereby referred to as Rajratan India; along with its 100%-owned Thai subsidiary, referred to as Rajratan Consolidated) strong operational performance, benefitting from its leading position as a tyre bead wire (TBW) manufacturer. Even as the company's scale of operations was significantly impacted in Q1 FY2021 by the enforced lockdowns, its revenue has improved sequentially over the past couple of quarters post the relaxation in lockdowns, aided by the recovery in demand for its end-user segments. It reported a strong ~51.9% growth in revenues in Q3 FY2021 (on a YoY basis). Moreover, aided by a surge in demand, improved pricing power and cost efficiency measures, the company's operating profitability has improved in the current fiscal (i.e., 16.4% in 9M FY2021 over 14.6% in 9M FY2020). It remains well positioned to benefit from an expectation of recovery in demand across automotive segments, especially commercial vehicles (CVs), with its established relationships and strong share of business with various tyre manufacturers likely to help in recording a healthy medium-term revenue growth.

The ratings continue to factor in favourably the high entry barriers in the TBW industry due to the long approval cycle by tyre manufacturers, given the criticality of the product. Rajratan India is the largest manufacturer of TBW in India with a market share of ~50%, while its subsidiary, Rajratan Thailand is the sole manufacturer of TBW in Thailand with a market share of ~25%. 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) and Birla Tyres (Birla), among others. This has aided in healthy return metrics for the company over the years, with the return on capital employed (RoCE) ranging within 19-21% during four of the last five fiscals.

These strengths are partially offset by the limited value addition in the company's business operations as reflected in the susceptibility of its profitability to volatilities in steel prices. Limited product diversification, with a major share of its revenues being derived from TBW, makes Rajratan Consolidated dependent on the tyre industry performance. This exposes it to cyclicalities in the automobile industry as well as demand in the replacement market. Notwithstanding the steady ramp-up in supplies to various tyre manufacturers in Thailand during the last three years, Rajratan Thailand's business remains vulnerable to any changes in tariff structures imposed by US, as the unit targets revenue growth through incremental sales to Chinese

tyre manufacturers in Thailand<sup>1</sup> apart from exports to other countries. Similarly, Rajratan India's supplies to tyre companies in India remain vulnerable to changes in tariff structures imposed by the Indian Government on Chinese tyre manufacturers.

ICRA notes that the capacity expansion undertaken by Rajratan India resulted in a month-long shutdown in FY2020, which coupled with delays in receiving the Bureau of Indian Standards (BIS) certification for Rajratan Thailand and Covid-19 pandemic-related disruptions, led to curtailed scale of operations in FY2020. Despite the Covid-19 induced uncertainties, the company has been able to record healthy revenue growth over the past few months, and is thus planning to enhance capacity at Rajratan Thailand (capex of ~Rs. 65 crore expected to be incurred over FY2022-FY2024). While it intends to avail debt to fund these capacity expansion plans, ICRA expects that Rajratan Consolidated's cash accruals would help in maintaining a healthy financial risk profile.

The Stable outlook reflects ICRA's view that Rajratan Consolidated is likely to maintain a comfortable credit profile, with an expectation of healthy cash flows to keep its dependence on external debt at moderate levels, even as it pursues capital expenditure plans towards expanding capacity at its Thailand unit.

## Key rating drivers and their description

### Credit strengths

**Leading TBW manufacturer in India, with an established track record** – Rajratan India is one of the largest TBW manufacturers in India. It enjoys established relationships and a healthy SOB with its clientele, consisting of major tyre manufacturers such as Apollo, CEAT, MRF, BIPL, BKT and Birla, among others. Benefitting from strict adherence to quality and delivery schedules, while being price competitive, Rajratan India secured repeat orders from the large tyre manufacturers. This, along with increased capacity, has helped the company to increase its market share to ~50% in the domestic market. The company's subsidiary, Rajratan Thailand, is the sole TBW manufacturer in Thailand, with supplies to tyre manufacturers such as Sumitomo, Kern, Huayi Group, Otani, etc.

**High barriers to entry; aids profitability and return metrics** – 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, which can take a long time. As a result, the entry barriers in this particular sub-industry are particularly high, restricting the number of major players in the Indian TBW industry. The major domestic players in this industry include Rajratan Consolidated, Tata Steel Limited and Aarti Steels Limited, while the major foreign players are Kiswire Limited and Hyosung.

**Healthy revenue visibility over medium term** – Rajratan India, along with its Thai subsidiary – Rajratan Thailand, continues to enjoy a healthy share of business with most of the tyre manufacturers in India and previously, factors such as capacity constraints at the Indian unit and delay in receiving Bureau of Indian Standards (BIS) for its Thai unit restricted its domestic revenues. This had resulted in Rajratan Thailand giving greater focus to the Thai market and other international markets, which has helped to expand its presence. The recent Covid-19 outbreak has further led to various tyre manufacturers in Thailand preferring domestically produced TBW over imported ones, which led to Rajratan Thailand getting quicker approvals for its product. This, along with enhanced capacity at the Indian unit, has resulted in record sales for Rajratan Consolidated in the recent months. With demand for tyres likely to remain healthy, the company has healthy growth prospects over the medium-term.

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<sup>1</sup> In 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 Rajratan Thailand's sales with the company being able to capture business from these Chinese tyre manufacturers in a short span.

## Credit challenges

**Limited value addition and susceptibility of profitability to variation in steel prices** – Despite an improvement in operating margin to 16.4% in 9M FY2021 from 10.6% in FY2019, attributable to a combination of greater pricing power and improved operational efficiencies, the value addition in Rajratan Consolidated's business remains limited. 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 past instances of delays in doing the same, which adversely impacted its margins. Additionally, intense competition in the industry could limit Rajratan Consolidated's ability to completely pass on price hikes in a timely manner.

**Exposure to cyclicity 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 and 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. However, the replacement demand for tyres moderates Rajratan Consolidated's exposure to cyclicity to an extent.

**Vulnerability to tariff and trade restrictions** – Rajratan Thailand, witnessed a steady growth in business, driven by demand from the Chinese tyre manufacturers, who have set up their units in Thailand over the last two to three years and are expected to contribute to the company's incremental revenues. However, the company's sales remain exposed to changes in any trade restrictions imposed by its key destinations, such as US. Similarly, Rajratan India's performance since FY2018 was favourably impacted by the increased demand for tyres manufactured in India, subsequent to the imposition of anti-dumping duties (ADD) on Chinese TBR tyres as well as the increased customs duty in tyre imports. Thus, Rajratan India's sales remain exposed to changes in tariff structures implemented by the Indian Government.

## Liquidity position: Adequate

Rajratan Consolidated's liquidity is **adequate**, supported by a buffer of Rs. 29.2 crore in working capital facilities at its Indian unit in February 2021. The Thai unit has sufficient buffer to meet its limited debt repayment obligations with a major portion of the debt being in the form of working capital facilities. The company is expected to generate fund flow from operations (consolidated financials) of Rs. 55-65 crore in FY2021, which is expected to grow further over the medium term. Against this, it has repayment obligations of ~Rs. 10-15 crore per annum. Therefore, ICRA expects the company to be able to meet its obligations, in a timely manner, and still maintain sufficient buffer over the near to medium term.

## Rating sensitivities

**Positive factors** – A positive rating action could arise if the company is able to further scale-up its operations, thereby leading to improved capacity utilisation and credit metrics. A track record of stable and healthy operating margins would be favourably considered for a positive rating action.

**Negative factors** – The ratings could be negatively impacted if there is a sharp contraction in volumes in the near-to-medium term, which leads to a deterioration in the company's return metrics and credit profile. A high debt-funded capex without a significant increase in revenue could also impact the credit metrics and thus, the credit rating. Specific credit metrics that could result in a downgrade would include Debt/OPBDITA above 2.0 times (consolidated financials) on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rajratan India. As on March 31, 2020, the company had one subsidiary, which is enlisted in Annexure-2.

## About the company

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

The company has two manufacturing units, one each in Pithampur (Madhya Pradesh) and Ratchaburi (near the Thailand port). The Pithampur unit has an installed capacity of 72,000 MT/annum and the Ratchaburi unit has an installed capacity of 34,800 MT/annum. Both these manufacturing facilities are approved vendors of leading tyre manufacturers in domestic as well as international markets. While Rajratan India enjoys a healthy share in the domestic market for TBW, Rajratan Thailand is the sole local TBW supplier in Thailand.

## Key financial indicators (audited)

LTHL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	492.9	480.2
PAT (Rs. crore)	26.7	33.0
OPBDIT/OI (%)	10.6%	14.2%
PAT/OI (%)	5.4%	6.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.2
Total Debt/OPBDIT (times)	2.6	2.1
Interest Coverage (times)	4.8	5.1

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	Type	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Mar 25, 2021	Apr 24, 2020	Jun 06, 2019	May 24, 2019	-	Aug 04, 2017
1	Issuer Rating	Long Term	0.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	-	-
2	Fund-based - Cash Credit Facilities	Long Term	65.25	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	-	-	[ICRA]BBB (Positive); Withdrawn
3	Non-fund Based Bank Facilities	Long Term	-	-	-	-	-	-	-	[ICRA]BBB (Positive); Withdrawn
4	Unallocated	Long Term	-	-	-	-	-	-	-	[ICRA]BBB (Positive); Withdrawn
5	Fund-based Bank Facilities	Short Term	-	-	-	-	-	-	-	[ICRA]A3+; Withdrawn
6	Non-fund Based Bank Facilities	Short Term	52.36	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-	-	[ICRA]A3+; Withdrawn
7	Fund-based -Term Loan	Long Term	48.39	47.6	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	-	-	-
8	Fund-based/ Non-fund Based Facilities	Long Term/ Short Term	10.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	-	-	-

## 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](http://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	0.00	[ICRA]A (Stable)
NA	Fund-based - Cash Credit Facilities	NA	NA	NA	65.25	[ICRA]A (Stable)
NA	Non-fund Based Bank Facilities	NA	NA	NA	52.36	[ICRA]A1
NA	Fund-based/Non-fund Based Facilities	NA	NA	NA	10.00	[ICRA]A (Stable)/ [ICRA]A1
NA	Term Loan – 1	01-Nov-18	-	31-Mar-25	20.00	[ICRA]A (Stable)
NA	Term Loan – 2	07-Jun-18	-	07-Sep-25	25.00	[ICRA]A (Stable)
NA	Term Loan – Unallocated	-	-	-	3.39	[ICRA]A (Stable)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

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

Source: Rajratan India's Annual Report FY2020

Note: ICRA has taken a consolidated view of the parent (Rajratan India) and its subsidiary while assigning the ratings.

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