December 29, 2017

Radix Industries (India) Limited

Summary of rated instruments

Instrument*	Previous rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	13.00	13.00	Re-affirmed at [ICRA]BB(Stable); outlook revised from Negative
Non-fund based limits	1.00	1.00	Re-affirmed at [ICRA]A4
Unallocated	16.00	16.00	Reaffirmed at [ICRA]BB(Stable)/[ICRA]A4; outlook revised from Negative

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB (pronounced ICRA double B)[1] assigned to the Rs. 13.00-crore[2] fund-based facilities and short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to Rs.1.00 crore non-fund based limits of Radix Industries(India) Limited (RIIL). ICRA has reaffirmed the long term/short term rating of [ICRA]BB/[ICRA]A4 assigned to Rs.16.00 crore unallocated limits of the company. The outlook on the long-term rating has been revised to 'Stable' from 'Negative'

Rationale

The revision in outlook factors in the expected stability in the operating income with focus on manufacturing of hair extensions which commands higher margins compared processing of hair, which was the prime revenue generator for RIIL earlier. The revision in outlook also factors in geographic diversification with addition of new customers from USA, UAE, Europe, etc with change in the business profile of the company. The ratings also consider long experience of the promoters in the hair processing industry and easy availability of hair and low-cost labour which ensures cost competitiveness of the Indian hair export industry.

The rating, however, continues to remain constrained by the small scale of operations, susceptibility of profitability to volatility in foreign exchange rates owing to its dependence on exports, high volatility in raw material prices, and high competition intensity in the hair processing industry that restricts RIIL's pricing flexibility. The rating factors in the company's high working capital intensity owing to high inventory holding piled up due to change in business profile. ICRA also notes that being a fashion-oriented product, the demand for human hair is affected by the vagaries in economic scenario.

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

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

ICRA believes RIIL will continue to benefit from its diversified geographic base with addition of new customers and extensive experience of its promoters which has lead to established suppler base. The outlook may be revised to 'Positive' if the company witnesses substantial growth in top line along with effective management of working capital and improvement in profitability and other financial indicators. The outlook may be revised to 'Negative' if the company's operating income witnesses substantial de-growth which would lead to any major deviation in the actual cash flow position of the company as noticed in the past.

Key rating drivers

Credit strengths

- **Expected stabilisation in revenue growth –** While the company witnessed significant revenue de-growth over the past two years owing to lower sales volumes, the revenues are expected to stabilise going forward given the focus on manufacturing of hair extensions which command higher margins than processing of hair. The company has also diversified its geographic base by acquiring some new clients in USA, UAE, Europe, etc reducing the risks associated with geographic concentration.
- **Extensive experience of the promoters in the hair processing industry –** The promoters have more than one decade of experience in hair processing business resulting in established relationship with suppliers
- **Easy availability of raw-material –** The raw material is easily available in India at low cost given proper systems in place for procurement ensuring cost competitiveness of the Indian hair export Industry

Credit weaknesses

- **Small scale of operations –** The scale of operations of the company remained low with revenue of Rs 13.86 crore during FY2017; which declined from Rs.30.13 crore in FY2016 on account of lower demand for non-remy hair from Chinese customers
- **High dependence on overseas markets –** The company derives 100% of its revenues from overseas markets; however hedging of the receivables through forward contracts mitigates this risk to an extent
- **Profitability indicators exposed to the volatility in price movements of raw material-** The margins of the company are affected by the raw material price fluctuation which in turn affects the sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins
- **High working capital intensity-**RIIL's working capital intensity remained high as reflected by NWC/OI of 153% for FY2017 on account of high inventory holding due to pile up on inventory with change in business profile from processing of hairs to manufacturing of end products
- **Highly fragmented and competitive industry-**The industry is highly fragmented and competitive given the low entry barriers. Moreover, the industry is dominated by many unorganized players which could impact the margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

Radix Industries (India) Limited, formerly known as Ragson Petrochem Limited (RPL), a public limited company listed in Bombay Stock Exchange, was acquired by the promoters of Arqube Industries (India) Limited in 2011. RPL was incorporated in 1998 and it was earlier engaged in bottling of LPG and supplying to both domestic and commercial use. Post acquisition, the line of business changed from storage and marketing of gas to dealing in exports of human hair, wigs and its related products.

In FY2017, the company reported a net profit of Rs. 1.25 crore on an operating income of Rs. 13.86 crore, compared to a net profit of Rs. 2.03 crore on an operating income of Rs. 30.13 crore in the previous year.

Key financial indicators (Audited)

Particulars	**FY2016**	**FY2017**
	Audited	**Audited**
Operating Income (Rs. crore)	30.13	13.86
Net Profit (Rs. crore)	2.03	1.25
OPBITDA/OI (%)	13.12%	16.96%
RoCE (%)	18.10%	11.43%
Total Debt / Tangible Net worth (times)	0.19	0.29
Total Debt / OPBITDA (times)	0.75	2.07
Interest coverage (times)	4.97	6.86
NWC/OI (%)	60%	153%

Source: RIIL; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years
Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				December 2017	September 2016	October 2015	August 2014
1	Fund-based limits	Long Term	13.00	[ICRA] BB (Stable)	[ICRA] BB (Negative)	[ICRA] BB+ (Stable)	[ICRA] BB+ (Stable)
2	Non fund based limits	Short Term	1.00	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+
3	Unallocated	Long Term/Short Term	16.00	[ICRA] BB (Stable)/ [ICRA]A4	[ICRA] BB (Negative)/ [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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Current Rating and Outlook
Export Packing Credit	-	-	-	11.00	[ICRA]BB (Stable)
Stand-by Letter of Credit	-	-	-	2.00	[ICRA]BB (Stable)
Forward Contract	-	-	-	1.00	[ICRA]A4
Unallocated	-	-	-	16.00	[ICRA]BB (Stable)/[ICRA]A4

Source: RIIL

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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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