Ruttonsha International Rectifier Limited

April 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	8.00	8.00	[ICRA]BB+(Stable); reaffirmed
Bank Guarantee	1.00	1.00	[ICRA]A4+; reaffirmed
Letter of credit	0.10	0.10	[ICRA]A4+; reaffirmed
Unallocated amount	0.90	0.90	[ICRA]BB+ (Stable)/ [ICRA]A4+; reaffirmed
Total	**10.00**	**10.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced as ICRA double B plus)[1] and short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 9.10-crore fund-based and non-fund based limits of Ruttonsha International Rectifier Limited ('RIRL' or 'the company')[2]. ICRA has also reaffirmed the ratings of [ICRA]BB+/[ICRA]A4+ for the Rs. 0.90-crore unallocated amount. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation continues to take into account the promoter's extensive experience in the manufacturing of semi-conductor devices and power equipment. ICRA notes RIRL's strong in-house technical and manufacturing capability and its pre-qualification status from various reputed private and public-sector undertakings (PSUs). The ratings are, however, constrained by the company's modest scale of operations, reporting a revenue of Rs. 28.28 crore in FY2017 and a high working capital intensity (NWC/OI) of 67% as on March 31, 2017, due to high inventory days and stretched receivables following low bargaining power with its customers. The ratings also factor in the high competitive intensity of the semi-conductor devices industry and the exposure of RIRL's profitability to fluctuation in raw material prices, given the high levels of inventory held.

Outlook: Stable

ICRA believes Ruttonsha International Rectifier Limited will continue to benefit from the extensive experience of its promoters and key management personnel as well as its technical collaboration with Silicon Power Corporation (SPC), USA. The outlook may be revised to Positive if substantial growth in revenue and profitability, along with improved working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if a stretch in the working capital cycle, weakens liquidity further.

[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*

Key rating drivers

Credit strengths

Long track record of promoters in the manufacturing of semi-conductor devices - Incorporated in 1969, RIRL manufactures semi-conductor devices and high power equipment. The directors and key management personnel are well qualified with an experience of around four decades in the field of electronics, which has helped the company to establish its position in the market and cater to well reputed players in the private as well as public sectors.

Pre-qualification status from Indian Railways and other reputed private and public sector undertakings - RIRL enjoys a pre-qualification status from various reputed PSUs such as the Indian Railways, Steel Authority of India Ltd. (SAIL), Bharat Heavy Electricals Ltd. (BHEL), Hindustan Aeronautics Ltd. (HAL), Oil and Natural Gas Corporation (ONGC), and Nuclear Power Corporation of India Ltd. In the current fiscal, the company has also received orders from Indian Railways for high power rectifier units. Although sales generation through the tender route remains limited, and RIRL transacts directly as well as through a network of non-exclusive dealers with its end-customers, the pre-qualification status from various PSUs permits it to execute orders for the above entities.

Strong in-house manufacturing and technical capability for manufacturing semi-conductor devices - RIRL has a manufacturing unit at Halol in Vadodara (Gujarat) with an in-house facility for fabrication, soldering, encapsulation and testing. The barriers to entry in terms of technical expertise for manufacturing high power semi-conductor devices are fairly high, and the company benefits from its association with SPC, USA, who provides the technical knowhow. SPC also undertakes the marketing of certain product ranges of RIRL in the USA.

Credit challenges

Modest scale of operations - The company's scale of operations is modest. RIRL's turnover has remained stagnant during the period under study on account of slowdown in the major consuming sectors such a railways, iron and steel, and infrastructure, among others. In FY2017, the revenues remained stagnant at Rs. 28.28 crore compared to Rs. 28.42 crore in FY2016, with lower sales in Q3 FY2017 because of temporary slowdown in demand following demonetisation. The sales for 9M FY2018 stood at ~Rs. 22.30 crore.

High working capital intensity of operations due to high inventory holding period and low bargaining power with customers, which has resulted in a high receivables period - The company's net working capital intensity has remained high on account of high inventory and slow receivables. High reliance on import, a lengthy manufacturing cycle and diversified product range lead to high inventory holding. Additionally, the general credit period offered by the company to its customers is up to 90 days, but the receivables position is stretched to almost 150-170 days on an average because of delays from larger customers. Furthermore, the comfort from creditors is relatively low as RIRL enjoys clean credit period of up to 90 days for domestic purchases, and it avails either advance payments or 30 days' letter of credit-backed payment for imported raw materials. Its net working capital intensity stood at 67% in FY2017 as well as in 9M FY2018.

Competitive pressures from both unorganised as well as organised players – In the basic semi-conductor devices segment, the company faces intense competitive pressures from local unorganised players as well as cheap Chinese imports. The prices for basic semi-conductor devices are very competitive and hence command low margins. In the special semi-conductor devices segment, though the profitability margins remain healthy, RIRL has to compete with large multi-national companies like ABB Limited, Westcode Semiconductors (USA), Powerex Corporation, etc., who mainly manufacture semi-conductor devices for high power applications.

Profitability susceptible to raw material price fluctuations because of high inventory levels - The major raw materials utilised by the company comprise silicon wafers and copper, which accounts for ~45-50% of the total raw material requirement. High reliance on import, a lengthy manufacturing cycle and diversified product range lead to high inventory holding. High inventory levels and periodic arrangement with customers exposes RIRL's margin to fluctuations in raw material prices. However, it is able to pass on the variation in costs to customers to an extent because of its established relationships with its customers.

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:

Promoted by Mr. J.E. Ruttonsha in 1969, Ruttonsha International Rectifiers Limited manufactures semi-conductor devices and high power equipment for domestic as well as international markets. The semi-conductor devices include diodes, rectifiers, thyristors and others, ranging from 10 amps to 12,000 amps with voltage groups ranging from 200V to 5,000V. Its equipment category includes inverters, UPS systems, battery chargers, stacks, modules and rectifier assemblies. In 2005, the company was taken over by Dr. Harshad Mehta and Mrs. Bhavna H. Mehta, the promoters of Silicon Power Corporation, USA. The company went public in 1986 and was listed on the Bombay Stock Exchange. RIRL's promoters and promoter group hold 73.13% stake in the company. It has a manufacturing unit at Halol (Gujarat).

In FY2017, the company reported a net profit of Rs. 0.81 crore on an operating income of Rs. 28.28 crore, as compared to a net profit of Rs. 0.95 crore on an operating income of Rs. 28.42 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	28.42	28.28
PAT (Rs. crore)	0.95	0.81
OPBDIT/ OI (%)	12.02%	11.44%
RoCE (%)	9.07%	8.72%
Total Debt/ TNW (times)	0.89	0.80
Total Debt/ OPBDIT (times)	3.74	3.75
Interest coverage (times)	2.50	2.50
NWC/ OI (%)	64%	67%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2019) Date & Rating April 2018	Date & Rating August 2017	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 February 2017	Date & Rating in FY2016 February 2016	Date & Rating in FY2016 June 2015	Date & Rating in FY2015 April 2014
1	Cash Credit	Long Term	8.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB + (Stable)	[ICRA]BB+ (Negative)
2	Bank Guarantee	Short Term	1.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4 +	[ICRA]A4+
3	Letter of Credit	Short Term	0.10	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4 +	[ICRA]A4+
4	Unallocated amount	Long Term/ Short Term	0.90	-	[ICRA]BB+ (Stable)/ [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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	8.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	0.10	[ICRA]A4+
NA	Unallocated Limit	NA	NA	NA	0.90	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Ruttonsha International Rectifier Limited

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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.

For more information, visit www.icra.in

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