

Radix Industries (India) Limited

March 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based/CC	13.00	11.00	[ICRA]BB(Stable); Reaffirmed
Short-Term – Non fund based	1.00	2.00	[ICRA]A4; Reaffirmed
Long term/Short term- Unallocated Limits	16.00	17.00	[ICRA]BB (Stable)/[ICRA]A4; Reaffirmed
Total	30.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings are constrained by the company's small scale of operations and revenue de-growth over the past two years on account of stiff competition from China. The ratings also take into account the high working capital intensity owing to high unsold inventory with change in its business profile from trading to processing of hairs to manufacturing hair products, primarily hair extensions. The rating is further constrained by its high customer concentration, complete dependence on exports and the susceptibility of its profitability to volatility in foreign exchange rates owing to its dependence on exports and intense competition in the hair processing industry that restricts Radix Industries (India) Limited's (RIIL) pricing flexibility. ICRA also notes that since the end-product is fashion-oriented, its demand is affected by the vagaries in economic scenario.

The rating, however, favourably factors in the extensive experience of the promoters in the hair processing industry and easy availability of hair at low-cost owing to a well-established procurement system. The rating also draws comfort from the healthy capital structure with a gearing at 0.2 times and healthy coverage indicators with interest coverage at 5.3 times as on March 31, 2018.

Outlook: Stable

ICRA believes RIIL will continue to benefit from extensive experience of its promoters in the hair processing industry, which has led to established supplier base. The outlook may be revised to Positive if the company witnesses substantial growth in revenues and effectively manages its working capital. The outlook may be revised to Negative if revenue degrowth results in lower cash accruals or if higher inventory stretches its working capital further.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the hair processing industry - The promoters have extensive experience of more than one decade in the 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.

Healthy capital structure and coverage indicators - The company depicted a healthy capital structure and coverage indicators with gearing at 0.2 times and interest coverage at 5.3 times as on March 31, 2018.

Credit challenges

Small scale of operations - The company's scale of operations remained low with a revenue of Rs. 13.9 crore in FY2017, which declined to Rs. 12.1 crore in FY2018 on account of increased competition from other countries, mainly China.

High customer concentration and dependence on overseas markets - The company derives a predominant share of its revenues from the top five customers and lower offtake by any of its customers would led to a revenue degrowth. Moreover, RIIL derives 100% of its revenues from exports exposing its margins to fluctuations in currency rates; however, hedging of the receivables through forward contracts mitigates this risk to an extent.

Profitability indicators exposed to the volatility in raw material price movements - The company's margins 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 its margins

High working capital intensity - RIIL's working capital intensity remained high over the years as reflected by NWC/OI of 163% for FY2018 on account of its high unsold inventory with a change in the company's business profile from trading to processing of hairs to manufacturing hair products, primarily hair extensions. RIIL's ability to liquidate its inventory at competitive rates remains crucial to improve its working capital position.

Highly fragmented and competitive industry - The industry is highly fragmented and competitive given the low entry barriers. Moreover, the industry is dominated by many unorganised players, which could impact the margins.

Liquidity position

The company's liquidity position is comfortable with enough cushion in the form of cash credit limits and non-fund based limits. In the absence of any long-term debt and capex plans, the liquidity remains comfortable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

Radix Industries (India) Limited, formerly known as Ragson Petrochem Limited (RPL), is a public limited company listed in Bombay Stock Exchange. It was acquired by the promoters of Arqube Industries (India) Limited in 2011. RPL was incorporated in 1998 and it was earlier involved 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 export of human hair, wigs and its related products.

RIIL reported an operating income (OI) of Rs. 12.1 crore and net profit of Rs. 1.3 crore in FY2018 as against an OI of Rs. 13.9 crore and a net profit of Rs. 1.2 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	13.9	12.1
PAT (Rs. crore)	1.2	1.3
OPBDIT/ OI (%)	17.0%	18.2%
RoCE (%)	11.4%	10.2%
Total Debt/ TNW (times)	0.3	0.2
Total Debt/ OPBDIT (times)	2.1	1.6
Interest Coverage (times)	6.9	5.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016	
							October 2015	
1	Cash Credit	Long Term	11.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB+(Stable)
2	Letter of Credit	Short Term	2.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+
3	Unallocated	Long Term/Short Term	17.00	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Negative)/ [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	-	-	-	11.00	[ICRA]BB (Stable)
NA	Letter of Credit	-	-	-	2.00	[ICRA]A4
NA	Unallocated	-	-	-	17.00	[ICRA]BB (Stable)/ [ICRA]A4

Source: Radix Industries (India) Limited

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