

June 20, 2019

Ruttonsha International Rectifier Limited: Ratings reaffirmed, outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Cash Credit	8.00	8.00	[ICRA]BB+; reaffirmed; outlook revised to Positive from Stable
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+/ [ICRA]A4+ reaffirmed; outlook revised to Positive from Stable
Total	10.00	10.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook considers the improvement in the credit profile of the company on the back of improved order inflow leading to a healthy growth in revenues and profitability, increase in net cash accruals and a comfortable capital structure. Ruttonsha International Rectifier Limited (RIRL) has registered a turnover of Rs. 43.05 crore in FY2019 over Rs. 31.80 crore in FY2018 compared to 10.68% in FY2018. With an increase in sale of high margin products as well as economies of scale, OPM has increased to 11.84% in FY2019. Further, focus on liquidating slow-moving stock as well as faster collection of receivables have resulted in an improved working capital intensity as reflected by NWC/OI of 50% as on March 31, 2019 over 67% as on March 31, 2018.

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 Ruttonsha International Rectifier Limited's (RIRL) 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, despite an increase in revenue to Rs. 43.05 crore in FY2019 from Rs. 31.80 crore in FY2018. ICRA also notes that although the working capital intensity has improved as on March 31, 2019, it continues to remain high on account of high inventory days and stretched receivables following low bargaining power with its customers. The ratings also factor in the stiff competition in the semi-conductor devices industry and the exposure of its profitability to fluctuation in raw material prices, given the high levels of inventory held.

Outlook: Positive

ICRA expects RIRL to register a healthy growth in revenue in the current fiscal, supported by improved demand conditions in the domestic market, while maintaining a comfortable capital structure and healthy credit metrics. The rating may be upgraded if RIRL is able to scale up its revenues while maintaining healthy profit margins and improve its working capital cycle. The outlook may be revised to Stable if the company is not able to scale up its operations or profitability declines, or if any delay in recovery of receivables or an increase in inventory level weakens the liquidity profile.

Key rating drivers

Credit strengths

Extensive track record of promoters in manufacturing 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 reputed private and PSUs - RIRL enjoys a pre-qualification status from various reputed PSUs such as the Indian Railways, Bharat Heavy Electricals Ltd. (BHEL), and others. 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 entry barriers in terms of technical expertise for manufacturing high-power semi-conductor devices are fairly high, and the company benefits from its association with Silicon Power Corporation (SPC), USA, which provides the technical knowhow. SPC also undertakes the marketing of certain product ranges of RIRL in the USA.

Credit challenges

Modest scale of operations with an improvement in turnover in FY2019 - Despite revenue growth, the entity's scale of operations continues to remain modest, restricting economies of scale and operational flexibility. RIRL's turnover has remained stagnant till FY2017 on account of slowdown in the major consuming sectors such as railways, iron and steel and infrastructure, among others. Nonetheless, it reported a growth in turnover of 12% and 35% in FY2018 and FY2019 respectively, backed by improved demand in the domestic market in the infrastructure sector.

High working capital intensity of operations due to high inventory holding period and stretched receivables - The company's net working capital intensity remained high on account of its 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. However, with the management's efforts to reduce inventory level by liquidating slow-moving stocks and faster collection of receivables, the working capital intensity (NWC/OI) improved to 50% as on March 31, 2019 over 67% as on March 31, 2018.

Stiff competition from both unorganised and organised players - In the basic semi-conductor devices segment, the company faces intense competition from local unorganised players as well as from the 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, which mainly manufacture semi-conductor devices for high-power applications.

Profitability susceptible to raw material price fluctuation due to 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 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.

Liquidity position

The liquidity position remained stressed till FY2018. However, the same has improved to an extent as on March 31, 2019 with efficient management of working capital requirement leading to moderate utilisation (average utilisation of 54% of the fund-based sanctioned limit) of the working capital limits during May 2018 to April 2019. Further, absence of any long-term debt repayments as well as cushion available in the form of undrawn working capital limits provides comfort.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	N.A.
Consolidation / Standalone	Standalone - The ratings are based on the standalone financial profile of the company

About the company

Promoted by Mr. J. E. Ruttonsha in 1969, RIRL 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, it 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 FY2019, the company reported a net profit of Rs. 2.59 crore on an operating income (OI) of Rs. 43.05 crore, as compared to a net profit of Rs. 0.79 crore on an OI of Rs. 31.80 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	31.80	43.05
PAT (Rs. crore)	0.79	2.59
OPBDIT/OI (%)	10.68%	11.84%
RoCE (%)	8.54%	15.24%
Total Debt/TNW (times)	0.58	0.38
Total Debt/OPBDIT (times)	3.01	1.50
OPBDITA/Interest and Finance charges	2.49	5.12

Source: Financial statements of RIRL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2020)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
					Jun-19	Mar-19	Apr-18	Aug-17	Feb-17
1	Cash Credit	Long Term	8.00	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Bank Guarantee	Short Term	1.00	-	[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+
4	Unallocated amount	Long Term/Short Term	0.90	-	[ICRA]BB+ (Positive)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[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+ (Positive)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	0.10	[ICRA]A4+
NA	Unallocated amount	NA	NA	NA	0.90	[ICRA]BB+(Positive)/ [ICRA]A4+

Source: Ruttonsha International Rectifier Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
N.A.	N.A.	N.A.

The ratings are based on the standalone financial profile of the company.

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