

February 25, 2020

Radix Industries (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Cash Credit	11.00	9.50	[ICRA]BB (Stable); reaffirmed
Non-fund-based limits	2.00	0.50	[ICRA]A4
Unallocated limits	17.00	20.00	[ICRA]BB (Stable)/[ICRA]A4; reaffirmed
Total	30.00	30.00	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in the 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 0.4 times as on March 31,2019 and December 31,2019 and healthy coverage indicators with interest coverage at 7.2 times as on March 31, 2019, and 8.7 times as on December 31,2019.

The ratings, however, remain constrained by the company's small scale of operations and continuous revenue de-growth over the past three years with change in customer preference to artificial hair, and stiff competition from other players. The ratings also consider its high working capital intensity owing to high inventory; the company's inventory procurement is not order backed, and subdued demand for its products resulted in inventory pile-up. The rating is further constrained by its high customer concentration. The company's profitability is exposed to volatility in foreign exchange rates, as it derives majority of its revenues from exports and does not hedge its receivables. ICRA also notes that since the end-product is fashion-oriented, its demand is affected by the vagaries in economic scenario.

The Stable outlook on the [ICRA]BB rating reflects ICRA's belief that the company would benefit from easy availability of hair at low-cost owing to a well-established procurement system, and its comfortable capital structure and coverage indicators.

Key rating drivers and their description

Credit strengths

Healthy capital structure and coverage indicators - The company depicted a healthy capital structure and coverage indicators with gearing at 0.4 times as on March 31,2019 and December 31,2019 and healthy coverage indicators with interest coverage at 7.2 times as on March 31, 2019, and 8.7 times as on December 31,2019.

Easy availability of raw material - The raw material is easily available in India at low cost given the ease of procurement, ensuring cost competitiveness of the Indian hair.

Credit challenges

Small scale of operations - The company's scale of operations remained small and it continuous to report de-growth in revenues over the past four years owing to high competition from substitutes such as nylon hairs. In FY2019, its

revenues witnessed 11% de-growth declining to Rs.10.7 crore; the company recorded revenues of R.7.8 crore as on December 31,2019, a Y-o-Y decline of 15%.

High customer concentration - The company derives a predominant share of its revenues from the top five customers and lower offtake by any of its customers would lead to a revenue degrowth.

Profitability indicators exposed to the volatility in raw material price movements and exchange rates - 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. 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.

High working capital intensity - RIIL's working capital intensity remained high over the years and it increased to 212% in FY2019 from 164% in FY2018 on account of increase in inventory with lower orders. The company's inventory procurement is not order-backed, and subdued demand for its products resulted in inventory pile-up. RIIL's ability to liquidate its inventory at competitive rates remains crucial to improve its working capital position.

Liquidity position: Adequate

RIIL's liquidity is **adequate**, despite modest retained cash flows, in the absence of any repayment obligations or capex plans. The company has a liquidity buffer of ~Rs. 2.5-3.0 crore in the form of undrawn working capital facilities.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if the company shows sustained growth in operating income and improves its working capital intensity with better working capital management.

Negative triggers – Negative pressure on RIIL's rating could arise if any sustained decline in revenues or profitability or increase in inventory levels impacts liquidity position and debt metrics. Specific credit metrics leading to rating downgrade include TD/OPBDITA ratio of above 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

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.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	12.1	10.7
PAT (Rs. crore)	1.3	1.2
OPBDIT/ OI (%)	18.2%	19.3%
RoCE (%)	10.2%	9.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.4
Total Debt/ OPBDIT (times)	1.6	3.3
Interest Coverage (times)	5.3	7.2
DSCR	4.1	5.5

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating February 25, 2020	Date & Rating in FY2019 March 07, 2019	Date & Rating in FY2018 December 29, 2017	Date & Rating in FY2017 September 15, 2016
1 EPC	Long Term	9.50	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)
2 CEL	Short Term	0.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3 Unallocated	Long Term/ Short Term	20.00	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Negative)/ [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	EPC	-	-	-	9.50	[ICRA]BB (Stable)
NA	CEL	-	-	-	0.50	[ICRA]A4
NA	Unallocated	-	-	-	20.00	[ICRA]BB (Stable)/[ICRA]A4

Source: RIL

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