April 24, 2020

Rajratan Global Wire Limited: Rating reaffirmed; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	0.00	0.00	[ICRA]A-(Stable) reaffirmed; outlook revised to Stable from Positive
Fund-based - Term Loan	48.39	48.39	[ICRA]A-(Stable) reaffirmed; outlook revised to Stable from Positive
Fund-based - Cash Credit Facilities	65.25	65.25	[ICRA]A-(Stable) reaffirmed; outlook revised to Stable from Positive
Fund-based/Non-fund Based Facilities	10.00	10.00	[ICRA]A-(Stable)/ [ICRA]A2+ reaffirmed; outlook revised to Stable from Positive
Non-fund Based Facilities	52.36	52.36	[ICRA]A2+ reaffirmed
Total	**176.00**	**176.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook follows the impact of the novel coronavirus (Covid-19) outbreak on the Indian auto component industry; the adverse impact of the pandemic is expected to adversely impact automobile demand in the near-term and constrain an improvement in credit profile for Rajratan Global Wire Limited (RGWL).

The automotive supply chain disruption – largely limited to China during January and February 2020, has snowballed into a demand shock, owing to rapid spread of the pandemic and its adverse impact on macro-economic environment. To contain the rapid proliferation of the disease, the Government of India imposed a 21-day lockdown which has recently being extended till 3rd May 2020. The large-scale lockdown has disrupted production of automobile OEMs and their supply chain from March 2020 onwards.

In ICRA's view, even after the lockdown restrictions are eased, the demand environment is likely to remain subdued given the fact that automobile purchase is a discretionary spend. Accordingly, auto component companies including RGWL are likely to witness lower earnings in the near-term because of lower sales and overheads. Given the environment, the liquidity cushion between cash balances and available lines of credit, and debt servicing requirements remain key. In this respect, RGWL's liquidity position at the Indian unit is adequate with liquid investments of ~Rs. 2.9 crore as on March 31, 2020 and a buffer of ~Rs. 21 crore in working capital facilities in March 2020. In addition, the company has Rs. 8.6 crore of undrawn term loan as on March 31, 2020 related to reimbursement of capex which further supports its liquidity. Against this, the company has limited long-term debt repayment of ~Rs. 1.6 crore and LC payment of ~Rs. 11.6 crore during Q1 FY2021. The company met its debt obligations for March 2020 in a timely manner and has not yet opted to seek moratorium on interest and debt repayments for April and May 2020 (under the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI)) as it continues to maintain adequate liquidity.

Despite the current situation, the ratings continue to favourably factor in RGWL's (along with its 100%-owned Thai subsidiary, Rajratan Thai Wire Limited or RTWL) leading position as a tyre bead wire (TBW) manufacturer. The company has established business relationships and a healthy share of business (SOB) with almost all the leading tyre manufacturers in India, including Apollo Tyres Limited (Apollo), MRF Limited (MRF), Ceat Limited (CEAT), Balkrishna Industries Limited (BKT), Bridgestone India Private Limited (BIPL) and Birla Tyres (Birla), among others. ICRA notes that while the Indian unit's operational performance is likely to be impacted by Covid-19 pandemic, the Thai unit continues to perform well with it recording the highest monthly sales till now in the month of March 2020. The ratings are also supported by high entry barriers in the TBW industry due to the long approval cycle by tyre manufacturers, given the criticality of the product.

Even as the company's liquidity remains more than adequate to tide over the current lockdown, the company's financial performance continues to remain exposed to any prolonged weakness in demand in the automotive industry. The impact of the outbreak on consumer demand/sentiments over the coming quarters remains uncertain and would need to be assessed.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite expectations of prolonged weakness in the auto demand, RGWL will continue to benefit from its long track record of operations, its position as the leading TBW manufacturer in India and established relationships with most tyre manufacturers as well as continuation of healthy performance in its Thai unit.

Key rating drivers and their description

Credit strengths

Leading TBW manufacturer in India - RGWL is one of the largest TBW manufacturers in India. It enjoys established relationships and a healthy SOB with its clientele consisting of major tyre manufacturers like Apollo, CEAT, MRF, BIPL, BKT and Birla, among others. Benefitting from strict adherence to quality and delivery schedules, while being price competitive, RGWL has secured repeat orders from large tyre manufacturers. This helps it maintain a share of ~35-40% in the domestic market. The company's subsidiary, RTWL, is the sole TBW manufacturer in Thailand, with supplies to tyre manufacturers like Sumitomo, Otani, ZC Rubber, Century Tyres, Double Coin Tyre etc.

High barriers to entry - TBW is a critical component of a tyre and as such, there are very strict norms on its quality. Almost every tyre manufacturer has an independent process to approve TBW of a particular manufacturer and this can take a long time. As a result, the entry barriers in this particular sub-industry are particularly high, restricting the number of major players in the Indian TBW industry. The major domestic players in this industry include RGWL, Tata Steel Limited and Aarti Steels Limited, while the major foreign players are KISWIRE Limited and Hyosung.

Healthy revenue visibility over the medium term – RGWL, along with its Thai subsidiary – RTWL, continues to enjoy a healthy share of business with most of the tyre manufacturers in India and previously, factors like capacity constraints at the Indian unit and delay in receiving Bureau of Indian Standards (BIS) for its Thai unit had restricted its revenue in the domestic market. This had resulted in RTWL giving greater focus to the Thai market which has helped expand its presence in the same. The recent Covid-19 outbreak has further led to various tyre manufacturers in Thailand preferring domestically produced TBW over imported ones which has led to RTWL getting quicker approvals for its product. This, along with the completion of capacity expansion at the Indian unit, is likely to result in healthy revenue growth for the company over the medium-term once the auto demand recovers.

Credit challenges

Limited value addition and susceptibility of profitability to variation in steel prices – Despite an improvement in operating margin to 14.6% in 9M FY2020 from 10.4% in 9M FY2019 partly attributable to falling steel prices, the value addition in RGWL's business remains limited. Moreover, the margin remains susceptible to volatility in steel prices. Though there are provisions to pass on the changes in raw material prices to its customers, there have been past delays in doing the same, which adversely impacted its margins. Additionally, intense competition in the industry limits its ability to completely pass on price hikes in a timely manner.

Exposure to cyclicality in automobile industry; prolonged slowdown in automobile demand following the Covid-19 outbreak could restrict improvement in credit metrics - The TBW segment growth is directly linked to the prospects of the tyre industry (including demand in the replacement market), which relies on the automobile sector growth. The demand for automobiles remains dependent on factors such as economic and income growth, interest rates, fuel prices, availability of public transportation facilities and consumer sentiments. While demand from end-user segments, such as passenger vehicles, has strong linkages to consumer sentiments, segments such as tractors and commercial vehicles remain inherently cyclical in nature, with the industry volume strongly correlated to the level of economic activity in the country. Thus, any negative movement in these factors would result in subdued demand for automobiles, which will have an adverse impact on TBW demand. Moreover, as the economic fallout from the Covid-19 continues to worsen, the domestic auto sales are expected to remain significantly weak for a prolonged period as the consumer stays wary of large capital commitments. This could adversely impact RGWL's operating income and therefore, restrict improvement in credit metrics.

Vulnerability to tariff and trade restrictions – RTWL, RGWL's Thai unit, witnessed a steady growth in business driven by demand from Chinese tyre manufacturers, who have set up their units in Thailand over the last two-three years[1] and are expected to contribute to the company's incremental revenues. However, the Thai unit's sales remain exposed to changes in any trade restrictions imposed by its key destinations, like the US. Similarly, RGWL's Indian unit's performance since FY2018 was favourably impacted by the increased demand for tyres manufactured in India, subsequent to the imposition of anti-dumping duties (ADD) on Chinese TBR tyres as well as the increased customs duty in tyre imports[2]. Thus, the Indian unit's sales also remain exposed to changes in tariff structures implemented by the Indian Government.

Liquidity position: Adequate

RGWL's liquidity at the Indian unit is **adequate** with liquid investments of ~Rs. 2.9 crore as on March 31, 2020 and a buffer of ~Rs. 21 crore in working capital facilities in March 2020. In addition, the company has Rs. 8.6 crore of undrawn term loan as on March 31, 2020 related to reimbursement of capex which further supports its liquidity. Against this, the company has limited long-term debt repayment of ~Rs. 1.6 crore and LC payment of ~Rs. 11.6 crore during Q1 FY2021. The liquidity buffer at the Indian unit is adequate for servicing the debt obligations and interest payments over the near

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[1] *In response to the anti-dumping duties (ADD) imposed by the US on China, several Chinese tyre manufacturers have incrementally set up their manufacturing units in Thailand, where they are required to procure a certain minimum raw material requirement through the local manufacturers. This has directly aided RTWL's sales with the company being able to capture business from these Chinese tyre manufacturers in a short span. Going forward, the management expects this to be RTWL's primary growth driver and as a result, its sales are directly exposed to the tariff structures imposed by the US on China.*

[2] *In 10M FY2019, there was a steady decline in tyre imports into India, subsequent to re-imposition of five-year ADD on import of new Chinese truck and bus radial (TBR) tyres in September 2017 and 5% increase in customs duty in April 2018. As such, any changes in tariff structures imposed by India could directly affect the production volume of the domestic tyre manufacturers, which can have a direct impact on RGWL's revenues.*

term. However, monthly fixed costs pertaining to employee expenses and other overheads could weaken the liquidity position in the event of prolonged production shutdown or significantly lower demand. Accordingly, ICRA would continue to monitor the developments in this regard and would review the company's financial performance in case the situation prolongs.

Rating sensitivities

Positive triggers – A positive rating action could arise if there is a sustainable recovery in volumes in the auto industry which favourably impacts RGWL's revenues and hence, its credit metrics. A consolidated Debt/OPBDITA of 2.0x on a sustained basis could trigger an upgrade.

Negative triggers – The rating could be negatively impacted if there is a sharp contraction in volumes in the near-to-medium term which leads to a deterioration in the company's return metrics and credit profile. Specific credit metrics that could result in a downgrade would include RoCE of 15% or below or DSCR of 1.8 times or below on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RGWL. As on March 31, 2019, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

RGWL, along with its wholly-owned overseas subsidiary, RTWL, primarily manufactures high-carbon steel wires with specialisation in TBW, which is bronze-coated and used in tyres. TBW's main functions are to act as reinforcement and facilitate tyre grip on the rim, and it is used in all kinds of automobile, earth-moving equipment and aircraft tyres. RGWL also manufactures drawn steel wire (also known as black wire), used in automobile, construction and engineering industries.

RGWL has two manufacturing units in Pithampur (Madhya Pradesh) and Ratchaburi (near the Thailand port). The Pithampur unit has an installed capacity of 60,000 MT/annum (which can be expanded to 72,000 MT/annum depending on demand). The Ratchaburi unit has an installed capacity of 34,800 MT/annum. Both these manufacturing facilities are approved vendors of leading tyre manufacturers in domestic as well as international markets. Its key customers include tyre manufacturers like Apollo, MRF, BKT, CEAT, BIPL, Birla etc. While RGWL enjoys a predominant share in the domestic market for TBW, RTWL is the sole local TBW supplier in Thailand.

Key financial indicators (audited)

	FY2018	FY2019	9M FY2020 (Unaudited)
Operating Income (Rs. crore)	344.6	492.9	355.6
PAT (Rs. crore)	17.1	26.7	27.0
OPBDIT/OI (%)	9.7%	10.6%	14.6%
RoCE (%)	16.0%	19.2%	
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3	
Total Debt/OPBDIT (times)	2.9	2.6	
Interest Coverage (times)	3.8	4.8	5.2
DSCR	2.5	2.9	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020		FY2019	FY2018
					24-Apr-2020	6-Jun-2019	24-May-2019	-	4-Aug-2017
1	Issuer Rating	Long Term	0.00	-	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	-	-
2	Fund-based - Cash Credit Facilities	Long Term	65.25	-	[ICRA]A- (Stable)	[ICRA]A- (Positive)	-	-	[ICRA]BBB (Positive); Withdrawn
3	Non-fund Based Bank Facilities	Long Term	-	-	-	-	-	-	[ICRA]BBB (Positive); Withdrawn
4	Unallocated	Long Term	-	-	-	-	-	-	[ICRA]BBB (Positive); Withdrawn
5	Fund-based Bank Facilities	Short Term	-	-	-	-	-	-	[ICRA]A3+; Withdrawn
6	Non-fund Based Bank Facilities	Short Term	52.36	-	[ICRA]A2+	[ICRA]A2+	-	-	[ICRA]A3+; Withdrawn
7	Fund-based -Term Loan	Long Term	48.39	51.26	[ICRA]A- (Stable)	[ICRA]A- (Positive)	-	-	-
8	Fund-based/ Non-fund Based Facilities	Long Term/ Short Term	10.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	-	-	-

*Amount in Rs. crore; *As on March 31, 2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	0.00	[ICRA]A-(Stable)
NA	Fund-based - Cash Credit Facilities	NA	NA	NA	65.25	[ICRA]A-(Stable)
NA	Non-fund Based Bank Facilities	NA	NA	NA	52.36	[ICRA]A2+
NA	Fund-based/Non-fund Based Facilities	NA	NA	NA	10.00	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Term Loan – 1	01-Nov-18	-	31-Mar-25	20.00	[ICRA]A-(Stable)
NA	Term Loan – 2	07-Jun-18	-	07-Sep-25	25.00	[ICRA]A-(Stable)
NA	Term Loan – Unallocated	-	-	-	3.39	[ICRA]A-(Stable)

Source: RGWL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rajratan Thai Wire Limited	100.00%	Full Consolidation

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About ICRA Limited:

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