

Press Release

RSI Switchgear Private Limited (RSI)

28 November, 2017



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BB-/Stable (Downgraded from SMERA BB)
Short Term Rating	SMERA A4 (Downgraded from SMERA A4+)

**Refer annexure for details*

SMERA has downgraded the long term and short term rating on the abovementioned bank facilities of RSI Switchgear Private Limited (RSI Switchgear) to '**SMERA BB-' (read as SMERA double B minus)** and '**SMERA A4' (read as SMERA A4)** from '**SMERA BB' (read as SMERA double B)** and '**SMERA A4+' (read as SMERA A4 plus)** respectively. SMERA has also assigned long term rating of '**SMERA BB-' (read as SMERA double B minus)** on the Rs. 2.00 crore bank facilities. The outlook is '**Stable**'.

The rating downgrade reflects deterioration in its debt protection metrics and unevenness in revenue and profitability.

RSI Switchgear, incorporated in 1982, is a Kolkata-based company engaged in the manufacture of electrical power, traction motor resistors and LT panels for steel plants and the Indian Railways. The operations are led by Mr. Pankaj Bhaiya, Director. The company sells its products under the 'RSI Switchgear' brand name in the domestic market.

Key rating drivers

Strengths

Long track record of operations and experienced management: RSI Switchgear has long track record of operations. The company was promoted by Mr. Bhaiya and Mrs. Dipti Bhaiya. Mr. Bhaiya is an electrical engineer with over a decade of experience in the abovementioned business. The management is ably supported by a qualified team of engineers and technicians.

SMERA believes that RSI Switchgear will continue to benefit from its experienced management and long-standing relations with clients.

Reputed clientele and moderate order book position: The company caters to renowned players such as BHEL, Siemens Limited, ABB Limited among others. The revenue stood at Rs. 14 crore from April 2017 to Oct 2017. Further, the company has order book of over Rs.31 crore out of which Rs.16.00 crore is expected to be executed by March 2018.

Average financial risk profile: The financial risk profile is average marked by tangible networth of Rs.10.55 crore as on 31 March, 2017 (Provisional) as against Rs.10.45 crore as on 31 March, 2016. The gearing stood at 1.13 times as on 31 March, 2017 (Provisional) as against 1.00 times as on 31 March, 2016. The total debt of Rs. 11.95 crore as on 31 March, 2017 comprises majorly working capital loan of Rs.9.35 crore, term loan of Rs.0.38 crore and long term debt of Rs. 2.22 crore.

The Interest coverage ratio (ICR) is modest at 1.31 times in FY2016-17 (Provisional) as against 1.39 times in FY2015-16.

SMERA believes that RSI Switchgear will sustain its average financial risk profile on the back of absence of debt funded capex plans.

Weaknesses

Uneven revenue trend, tender based business: Revenue registered a decline by 28.46 percent in FY2017, Rs. 26.23 crore (Provisional) as against Rs.36.67 crore in FY2016 due to cancellation of orders worth Rs.15.00 crore from Jaipur Vidyut Vitran Nigam Limited (JVVNL). The orders were cancelled on account of shutting down of the project for not having obtained necessary approvals for land and environmental clearance.

The nature of operations is tender based and the company is exposed to intense competition in the industry.

Uneven profitability: The EBITDA margins have been uneven and declined to 5.74 percent in FY2016 from 8.04 percent in FY2015 mainly due to increase in the cost of raw material, which could not be passed on to customers. However, for FY2016-17 (Provisional) the margins stood at 7.85 percent in FY2017 (Provisional).

The net profit has been uneven at 0.39 in FY2017 (Provisional) compared to 0.24 percent in FY2016 and 0.92 percent in FY2015. The fluctuations in net profit margins are followed by unevenness in the EBITDA margin.

Working capital intensive operations: The operations are working capital intensive marked by high gross current asset (GCA) days of 329 in FY2017 (Provisional) as against 199 days in FY2016. The high GCA days emanate from the inventory holding and collection period of 196 days and 101 days as on 31 March, 2017 (Provisional) respectively as against 92 days and 73 days during the previous year. Moreover, the working capital facility has been fully utilised, as confirmed by the banker.

Analytical approach: SMERA has considered the standalone business and financial risk profile of RSI Switchgear.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Outlook – Stable

SMERA believes that RSI Switchgear will maintain a stable outlook over the medium term on account of its experienced management and established association with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers strong growth in its scale of operations while achieving sustained improvement in profit margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the capital structure or stretch in the working capital cycle.

About the Rated Entity – Key Financials

For FY2015-16, RSI Switchgear reported Profit After Tax (PAT) of Rs. 0.52 crore on total operating income of Rs.36.67 crore compared with Profit After Tax (PAT) of Rs.0.77 crore on total operating income of Rs.27.19 crore in FY2016-15. The tangible net worth stood at Rs.10.55 crore as on 31 March, 2016 as against Rs.10.45 crore in the previous year. As per provisional figures for FY2016-17, the company reported Profit After Tax (PAT) of Rs. 0.47 crore on total operating income of Rs.26.23.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
08 Mar, 2017	Cash Credit	Long Term	7.50	SMERA BB / Stable (Indicative)
	Bank Guarantee	Short Term	7.50	SMERA A4+ (Indicative)
24 Nov, 2015	Cash Credit	Long Term	7.50	SMERA BB / Stable (Assigned)
	Bank Guarantee	Short Term	7.50	SMERA A4+ (Assigned)

* Includes sublimit letter of credit to the extent of Rs. 2.00 crore

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	8.00	SMERA BB- / Stable (Downgraded)
Bank Guarantee	NA	NA	NA	5.00	SMERA A4 (Downgraded)
Proposed Fund Based Facilities	NA	NA	NA	2.00	SMERA BB- / Stable (Assigned)

* Includes sublimit letter of credit to the extent of Rs. 2.00 crore

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ABOUT SMERA

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