Press Release

Rajratan Global Wire Limited

August 04, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.12.50 Cr
Long Term Rating	ACUITE A+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A1+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE A+' (read as ACUITE A plus)** and the short term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs.12.50 Cr bank facilities of Rajratan Global Wire Limited (RGWL). The outlook is **'Stable'.**

Rationale for Rating Assigned

The rating assigned derives comfort from the company's long track record of operations in the auto ancillary industry, experienced management and established relationship with reputed clienteles like Apollo Tyres, MRF Limited, CEAT Limited and Bridgestone India Limited to name a few. RGWL is one of the largest domestic company in terms of market share. The rating is further supported by a healthy financial profile with a low gearing of 0.63 times and debt to EBITDA coverage of 1.52 times as on March 31, 2021. The debt coverage indicators are healthy with cash accruals of Rs.67.23 Cr in FY21.

About the Company

Rajratan Global Wire Limited is a Madhya Pradesh based company promoted by Mr. Sunil Chordia and his family members. The company was originally formed in the year 1989 as Rajratan Wires Private Limited and was engaged in the business of trading of iron and steel. Later in the year 1991, the company started the commercial production of pre-stressed concrete wires and stands. In the year 1995, the company got listed on NSE and the name of the company was changed to Rajratan Wires Limited. During this year, the company started manufacturing the bead wires. In the year 1998, the company entered into a technical collaboration and joint venture with Gustav Wolf Group of Germany thereby changing the name to Rajratan Gustav Wolf Limited. Following the joint venture of five years, in the year 2004, the equity shares held by the Gustav Wolf was brought back by the Indian promoters thereby changing the name into Rajratan Global Wire Limited. Currently the company is engaged in manufacturing the Tyre Bead wires and High Carbon Steel wire (widely known as black steel). The installed manufacturing capacity for the India unit is 72,000TPA.

About the Group

Rajratan Group is an Indore-Madhya Pradesh based group. The group is into the business of manufacturing Tyre Bead Wires and High Carbon Steel Wire. The group has two manufacturing units located at Pithampura- Madhya Pradesh, India and the other at Tambol Chetsamian, Ratchaburi, Thailand. The group extended to the launch of operation in Thailand in the year 2006; however the commercial production of the Thailand unit started in the year 2008. The Thailand unit is the wholly owned subsidiary of Rajratan Global Wire Limited. The group's product profile consists of Tyre Bead Wires and High Carbon Steel Wire. The Tyre Bead Wire finds its use in all kinds of automobile tyres, earth moving equipment and aircrafts tyre. This wire is the crucial link through which the vehicle load is transferred from rim to tyre thereby preventing the vibration during the driving. The High Carbon Steel Wire is used in automobile, construction and engineering industries. The group is the second largest bead wire manufacturer in Asia (excluding China), largest manufacturer in India and the only manufacturer in Thailand with a market share of 20 percent. The total installed manufacturing capacity of the group is 106,800TPA across both the products in its India and Thailand unit.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Rajratan Global Wire Limited and its wholly owned subsidiary company Rajratan Thai Wire Co. Limited, together referred to as 'Rajratan Group (RG)'. The consolidation is due to the common promoters, significant operational and financial synergies within the group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Rajratan group was incorporated in the year 1989. The group has an established track record of operation of more than three decades in the Indian Market and more than a decade in Thailand Market. The group is promoted by Chordia family led by Mr. Sunil Chordia. The promoters have an experience of more than three decades in the Auto Ancillary Segment. The extensive experience of the promoters and established track record of operation has helped the group to maintain healthy relationship with its customers and suppliers.

The product offered by the group finds it use in all kind of automobile tyres. The group is a global supplier of the tyre bead wires to all the tyre manufacturing companies. Besides the product being sold in India and Thailand, the group also exports to its customers in countries like Italy, USA, Malaysia, Indonesia, Thailand, Vietnam, Sri Lanka and Bangladesh to name a few. The customer profile of the group includes renowned companies like Apollo Tyres, MRF Limited, CEAT Limited and Bridgestone India Limited to name a few. The Thailand unit of the group is a sole tyre bead wire manufacturer enjoying a market share of 20 percent in Thailand. Export from the Thailand unit includes around 40 percent of net sales of that country.

The product of the group being a critical component of a tyre has very strict norms on its quality. Every tyre manufacturing companies have their own process to approve the tyre bead wire of a manufacturer and this is a long process. As a result, the entry barrier in this industry is very high restricting to number of players.

Acuité believes that the group will benefit from its experienced management, long track of operation and also due to limited players in the domestic market and being the sole manufacturer in Thailand.

- **Revenue visibility from the Thailand unit**

The Thailand unit of the group was set up in the year 2006; however the commercial production started in the year 2008. The Thailand unit of the group has become the additional source of revenue due to the favorable initiatives taken by the Thailand Government along with the imposition of anti-dumping duty of US on China. The Thai unit of the group is the sole manufacturer of the tyre bead wire covering a market share of 20 percent in Thailand. The other competitors in Thailand include the players who export their product to Thailand. The country has emerged as the tyre manufacturing hub in the world. The country has become the source of 37 percent of the world's new rubber supply (the largest exporter). The Thai Government has planned on increasing the tyre production capacity from 5,30,000 tons/year to 1 million tons/year and it is also expected that the Thai Tyre market to cross $5.6 billion mark by 2022. The anti-dumping duties imposed by US on China have helped the group to improve its performance. Due to imposition of such duties, several Chinese tyre brands have commissioned larger and more sophisticated manufacturing facility in Thailand where they require procuring certain raw material from the domestic market. This has helped the group to capture the business from the Chinese tyre manufacturing Companies. Moreover the company enjoys tax benefits on the profit reported on all the production in excess of 22,000TPA for a period of 8 years subject to the amount invested by the company for capacity creation above 22,000TPA. The impact of Covid-19 pandemic was negligible in March 2020, and April, 2020. As global customer destocked, there was a decline in the sale in May, 2020 and the unit was closed for a month. However, this turned out to be an opportunity for the group where it started focusing more on its domestic customer. The Thai unit of the group exports around 40 percent. It also exports to India to meet the Indian domestic demand.

Acuité believes that the group will benefit from the Thailand's unit in the near to medium term taking into consideration the initiatives that has been taken by the Thai government along with shifting of the business of Chinese tyre manufacturing companies to Thailand from their respective country.

- **Healthy financial risk profile**

  RG's financial risk profile is healthy marked by strong net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The group's net worth stood at Rs.226.00Cr as on March 31, 2021 as against Rs.173.02Cr as on March 31, 2020. The net worth levels have seen improvement over the last three years through FY2021. This is on account of healthy accretion to reserves over the period. The group has followed conservative financial policy in the past. The gearing continues to be low at around 0.63 times as on March 31, 2021 as against 0.84 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 0.94 times as on March 31, 2021 as against 1.18 times as on March 31, 2020. The group on the other hand generated cash accruals of Rs.67.23Cr in FY2021 as against Rs.45.13Cr in FY2019.

  Although group's operation were closed during the first 30-45 days in FY2021 due to nationwide lockdown, the revenue have increased by 13.81% and stood at Rs.546.54 Crore in FY2021 as against Rs. 480.21 Crore in FY2020. This was mainly due to continuous growth of the market and the rising demand of the product in the previous year. In the current financial year, the group have achieved a revenue of Rs.180.00 Crore in the first quarter of FY2022.

  EBITDA has improved to Rs.93.44Cr in FY2021 as against Rs.68.60Cr in FY2020. The PAT of the group has improved to Rs.53.13Cr in FY2021 as against Rs.33.04Cr in FY2020. The improvement in the PAT is due to change in the product mix and stronger cost management. The increase in the profitability level, coupled with moderate debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2021 stands at 0.47 times and 7.01 times respectively as against 0.31 times and 5.17 times in FY2020. The debt service coverage ratio stood 3.58 times in FY2021 as against 2.64 times in FY2020. The Debt-EBITDA ratio stands at 1.52 times in FY2021 against 2.11 times in FY2020.

  Acuite believes the financial risk profile of the group will continue to remain healthy on account of its healthy revenue growth, healthy cash accruals and no major debt funded capex in near to medium term.

- **Working capital operation is moderate in nature**

  Rajratan' s working capital operation is efficient in nature as it is reflected by its gross current asset (GCA) days of around 120 days in FY2021 as against 103 days in FY2020. The inventory holding period stood at 41 days as on March 31, 2021 as against 37 days as on March 31, 2020. The debtor collection period stood at 78 days as on March 31, 2021 as against 64 days as on March 31, 2020. On the other hand the group's credit payment period stood at 50 days as on March 31, 2021 as against 47 days as on March 31, 2020. The average bank limit utilization stood moderate at around 55 percent for six months ended May, 2021, while its peak utilization was high at around 85 percent during the same period.

  Acuite expects the working capital management to remain efficient over the medium term on account of high debtor collection and inventory period which is inherent in the aforementioned industry.

Weaknesses

- **Susceptibility of profitability margins to variation in steel prices**

  The profitability margin of the group has improved in FY2021 as against FY2020. The operating margin stood at 17.10 percent in FY2021as against 14.28 percent in FY2020. The net profit margin stood at 9.72 percent in FY2021 as against 6.88 percent in FY2020. The improvement in the operating margin is due to reduction in the cost and improved product mix. The margins are susceptible to volatility in the steel price. However, this risk is mitigated to some extent as there is a provision where any change in the raw material price is passed on to the customer

  Acuite expects maintaining a stable profitability margin for the group will remain a key sensitive factor.

- **Exposure to cyclicality in automobile industry**

  The auto-ancillary segment relies on the automobile sector growth. The demand for automobile depends on factors like economic growth, fuel prices, income growth, interest rates and consumer's sentiments. Thus any negative demand in these factors would result to subdued demand for automobiles which will have an adverse impact on auto ancillary products thereby restricting the growth and the credit metrics of the industry players.

Rating Sensitivities
- Significant improvement in the scale of operation while maintaining its profitability margin
- Any deterioration in the working capital cycle may impact the financial risk profile

Material Covenants
None

Liquidity position: Strong
The Company has strong liquidity marked by high net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.67.23 Crore in FY2021 as against CPLTD of Rs.9.26 Crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.80.00 Crore to Rs.100.00 Crore during FY2022-24 against CPLTD not more than Rs.16.00 Crore each year for the same period. Company's working capital operations are comfortable marked by gross current asset (GCA) days of 120 days in FY2021. As a result, the bank limits stood comfortable at 55% in the last six months ending May, 2021. Company maintains unencumbered cash and bank balances of Rs.2.70 Crore as on 31 March 2021. The current ratio stands at 1.30 times as on 31 March 2021. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable
Acuité believes that the group will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the group registers higher than expected growth in its revenue while improving its operating margins from its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the group registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	546.54	480.21
PAT	Rs. Cr.	53.13	33.04
PAT Margin	(%)	9.72	6.88
Total Debt/Tangible Net Worth	Times	0.63	0.84
PBDIT/Interest	Times	7.01	5.17

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

Any other information
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities in Manufacturing Sector - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Criteria - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Lenders Name	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	State Bank of India	ACUITE A+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	Citi Bank	ACUITE A+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	HDFC Bank	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.