

## Rating Advisory

August 24, 2020 | Mumbai

### RR Kabel Limited

#### Advisory as on August 24, 2020

This rating advisory is provided in relation to the rating of RR Kabel Limited

The key rating sensitivity factors for the rating include:

- Timely servicing of debt

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from RR Kabel Limited (RR Kabel) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If RR Kabel continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt.Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/CIR/P/2017/71dt.June 30,2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the company

RR Kabel Ltd is the flagship company of the Ram Ratna Group. The company is primarily into manufacture of low density electric cables (LDEC) and House Wires. It is among the larger organized players in the market, and holds around 9% in the domestic cables market.

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## Rating Rationale

May 06, 2019 | Mumbai

### RR Kabel Limited

'CRISIL A+/Positive/CRISIL A1+' assigned to bank debt

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.473 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A+/Positive (Assigned)</b>
<b>Short Term Rating</b>	<b>CRISIL A1+ (Assigned)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has assigned its '**CRISIL A+/Positive/CRISIL A1+**' ratings to the bank loan facilities of RR Kabel Limited (RR Kabel).

The ratings reflect the extensive experience of the promoters, strong market position in the home wires and cables industry in India and healthy financial risk profile. These rating strengths are partially offset by vulnerability of profitability to volatility in raw material prices, to economic downturns, and exposure to intense competition.

The positive outlook reflects CRISIL's belief that RR Kabel's operating performance may continue to improve (operating income had grown at a CAGR of 15% over the past 5 years) at a healthy pace over the medium term driven by sustained growth in the wires and cables industry, focus on diversifying cash flows and strong distribution network. The operating margins, though reduced in fiscal 2019 to around 9% on account of higher marketing expense, may steadily return to earlier levels of 10-12%. Moreover, capital structure has improved in fiscal 2019 with TPG Asia infusing Rs 315 crore equity. The capital raised is expected to be utilised for growth opportunities that may arise in the medium term.

#### Analytical Approach

CRISIL has treated Rs 400 crore of preference share capital as part of equity as the preference share are fully convertible and do not carry any preference dividend.

## Key Rating Drivers & Detailed Description

### **Strengths:**

\* **Extensive experience of the promoters:** The promoters of RR Kabel, the Kabra family, have been trading in and manufacturing various types of copper wires and cables (such as enameled copper winding wires) for more than 40 years. Furthermore, the promoters have extensive experience in the electrical accessories business through other group companies such as Ram Ratna Wires Ltd (CRISIL BBB+/Stable/CRISIL A2). The management and experience is expected to be bolstered by on-boarding of private equity investors, TPG Asia. TPG Asia has invested Rs 615 crore in RR Kabel (including primary and secondary issue) and will have presence on the board. The management will be further strengthened by appointment of professional management personnel in fiscal 2020.

\* **Strong market position in the home wires and cables industry in India:** The organized home wires and cables industry in India has a market size of around Rs 20,000'25,000 crore, of which RR Kabel is estimated to have 9% market share and is the fourth largest player. In fiscal 2018 the industry is estimated to have grown at 15% and is expected to continue to grow at a healthy rate over the medium term. RR Kabel's market position is facilitated from its strong dealer-distributor network of over 1200 entities and 5 depots across the country. RR Kabel is the largest exporter of housing wires in India, which contributes around 30% to its revenue share. The company is also aggressively spending to increase its brand awareness to further strengthen its market position in the industry.

\* **Healthy Financial Risk Profile:** Financial risk profile is healthy driven by large networth of over Rs 800 crore and healthy capital structure as reflected by total outside liabilities to total networth (TOL/TNW) of 0.60 times estimated as on March 31, 2019. The capital structure is expected to improve further over the medium term on the back of steady cash accrual in absence of any major debt funded capex plan over the medium term. Debt protection metrics are strong as reflected in interest coverage ratio of 6.71 times and net cash accruals to total debt of 0.34 times estimated for fiscal 2019. Working capital intensity is in line with industry peers as reflected in gross current asset days in the range of 120-140 days, however, the company has the lowest inventory cycle in the industry. Further, vendor financing will also aid in improving the debtor cycle of the company.

### **Weaknesses:**

\* **Exposure to intense competition:** The house wires and electrical cables segment is highly fragmented with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from unorganised sector, RR Kabel also faces competition from organised sector players such as Polycab India Ltd (CRISIL AA/Positive/CRISIL A1+), Havells India Ltd, Finolex Cables Ltd (CRISIL AA+/Stable/CRISIL A1+), and Kei Industries Ltd. Some of the larger players also have backward integrated capabilities which support their operating efficiency. CRISIL believes that though the domestic electrical market is becoming more quality conscious and there would be some pressure on the unorganised players for GST compliance with the share of unorganised sector expected to decrease to 26% over next 5 years from existing 34%, however, competition from organised and unorganised players in the market will continue to impact RR Kabel's operating performance.

\* **Susceptibility to economic downturns:** RR Kabel is susceptible to the economic environment in India. Domestic wires contribute more than 70% to RR Kabel's revenue, and end-users of the product include construction (real estate), power, and automobile industries. Growth in these industries is, in turn, linked to the economic environment, any slowdown in gross domestic product growth could lead to moderation in demand for electrical cables over the near term.

\* **Vulnerability to fluctuations in raw material prices:** RR Kabel is susceptible to volatility in raw material prices. Copper and aluminum are the primary raw material used in the manufacture of cables and accounts for 70-80% of PWPL's product value. Though the company revises the prices every month on basis of last month (M-1) LME prices, however, the profitability would be impacted if the company is unable to pass on the price increase to its customers.

### Liquidity

RR Kabel has strong liquidity driven by expected cash accruals of more than Rs 100 crore per annum in fiscal 19 and fiscal 20. RR Kabel also has access to fund based limits of Rs 460 crore, which were moderately utilized at 70% over the past year. The company has long term repayment obligations around Rs 7-8 crore each in fiscal 19 and fiscal 20. CRISIL expects internal accruals, and unutilized bank lines to be sufficient to meet its repayment obligations as well as incremental working capital requirements.

## **Outlook: Positive**

RR Kabel's business risk profile may improve driven by its market leadership position in Wires and cables and established distribution network.

## **Upward Scenario**

- \* Significant improvement in market share leading to sustained cash accruals.
- \* Diversification of product portfolio while maintaining strong financial risk profile

## **Downward Scenario**

- \* Lower than expected operating performance.
- \* Higher than expected debt funded capex leading to deterioration of capital structure.

## **About the Company**

RR Kabel, is the flagship company of the Ram Ratna Group. The company is primarily into manufacture of low density electric cables (LDEC) and House Wires. It is among the larger organized players in the market, and holds around 9% in the domestic cables market.

For the 9 months ended December 2018, the company reported a PAT of Rs 81 crore on operating income of Rs 1,737 crore, as against a PAT of Rs 49 crore on operating income of Rs 1,132 crore for the same period of previous fiscal.

## **Key Financial Indicators**

As on/for the period ended March 31		2018	2017
Revenue	Rs crore	1931	1548
Profit after tax	Rs crore	121	87
PAT margins	%	6.3	5.6
Adjusted debt/Adjusted networth	Times	0.97	1.12
Interest coverage	Times	8.48	6.49

**Any other information:** Not applicable

## **Note on complexity levels of the rated instrument:**

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Fund Based Facilities	NA	NA	NA	100.00	CRISIL A+/Positive
NA	Fund Based Facilities*	NA	NA	NA	275.00	CRISIL A+/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	16.50	CRISIL A+/Positive
NA	Term Loan	NA	NA	Sep-20	60.00	CRISIL A+/Positive
NA	Non-Fund Based Facilities	NA	NA	NA	21.50	CRISIL A1+

\*Interchangeable with CC/OD/WCDL/EIF/CBN/EBD/IIF/WCDL/PCFC/PSFC/EPC /EBD/PBD/PIF/LC/BG

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	451.50	CRISIL A+/Positive		--		--	28-07-17	Withdrawn	20-06-16	CRISIL BBB+/Stable	CRISIL BBB/Stable
Non Fund-based Bank Facilities	LT/ST	21.50	CRISIL A1+		--		--	28-07-17	Withdrawn	20-06-16	CRISIL A2	CRISIL A3+

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Fund-Based Facilities	100	CRISIL A+/Positive	Bank Guarantee	10	Withdrawn
Non-Fund Based Limit	21.5	CRISIL A1+	Cash Credit	125	Withdrawn
Proposed Long Term Bank Loan Facility	16.5	CRISIL A+/Positive	Letter of Credit	20	Withdrawn
Term Loan	60	CRISIL A+/Positive	Standby Line of Credit	8	Withdrawn
Fund-Based Facilities*	275	CRISIL A+/Positive	Term Loan	82.56	Withdrawn
--	0	--	Working Capital Demand Loan	141	Withdrawn
<b>Total</b>	<b>473</b>	<b>--</b>	<b>Total</b>	<b>386.56</b>	<b>--</b>

\*Interchangeable with CC/OD/WCDL/EIF/CBN/EBD/IIF/WCDL/PCFC/PSFC/EPC /EBD/PBD/PIF/LC/BG

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

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