

Rating Update
June 26, 2023 | Mumbai**Ram Ratna Wires Limited****Update as on June 26, 2023**

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors

- Sustained improvement in operating performance driven by sustained operating margin of around 4.5-6% leading to healthy accruals
- Significant and sustained improvement in the capital structure, driven by better than expected cash accrual and low debt funded capex

Downward factors

- Deterioration in business risk profile driven by material decrease in revenues with operating margins falling below 4% impacting cash generation
- Deterioration in capital structure led by higher than expected debt funded capex

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Ram Ratna Wires Limited (RRWL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

RRWL manufactures enamelled copper winding wires under the RR Shramik brand. The company was set up in 1995 by Mr Rameshwarlal Kabra and his sons, Mr Tribhuvan Prasad Kabra, Mr Mahendra Kumar Kabra, and Mr Shreegopal Kabra. The promoter family also owns MEW Electricals Ltd ('CRISIL BBB-/Stable/CRISIL A3'), which manufactures enamelled copper winding wires; and RR Kabel Ltd, which produces light duty electrical cables.

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Rating Rationale

April 27, 2022 | Mumbai

Ram Ratna Wires Limited

Rating outlook revised to 'Stable', Rating reaffirmed

Rating Action

| | |
|---|--|
| Total Bank Loan Facilities Rated | Rs.27.5 Crore |
| Long Term Rating | CRISIL BBB+/Stable (Outlook revised from 'Negative'; Rating Reaffirmed) |

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its rating outlook on the long term bank facilities of Ram Ratna Wires Limited (RRWL) to '**Stable**' from 'Negative' while reaffirming the long term rating at 'CRISIL BBB+'.

The outlook revision is based on improvement in the business risk profile supported by better than expected operating performance in fiscal 2022 driven by higher realizations and uptick in volumes. Volume growth is expected to sustain going forward owing to increasing thrust on infrastructure development resulting in increase in demand for enamelled copper wires. Improving profitability is also expected to benefit network and cash generation levels, which if utilized for deleveraging, will result in further improvement of debt protection metrics over the medium term.

The rating continues to reflect the extensive experience of RRWL's promoters in the copper wires segment, and adequate financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices, and large working capital requirement.

The company is expected to generate revenue of over Rs 2300 crore in fiscal 2022 up from Rs 1527 crore in fiscal 2021 on account of increase in realization (~35% y-o-y) and volumes (~13% y-o-y) across products. The volume uptick was on account of gradual demand recovery from transmission cables industry while realizations were driven by the commodity upcycle. RRWL's revenue and operating margin improved to Rs. 1651 crore and 4.8%, respectively, during the first nine months through December 31, 2021 vis-à-vis Rs 978 crore and 3.8%, respectively, in the corresponding period last fiscal. Margins for the company have remained fairly stable owing to pass through of rise in price in Copper, which is the key raw material for the company. Revenues in fiscal 2021 remained flattish at Rs. 1527 crores owing to lower volumes amidst drop in demand due to the pandemic induced lockdowns.

Company's financial risk profile remains comfortable marked by healthy capital structure resulting from network estimated at over Rs. 230 crore as on March 31, 2022 and total debt of crore. Total debt decreased to an estimated ~Rs. 252 crore as on March 31, 2022 with the company prepaying a part of their term debt obligations. With steady improvement in cash accruals and no major debt funded capex plans, reliance on external debt is expected to remain low over the medium term. This, coupled with growing scale and improving profitability should lead to further improvement in financial risk profile over the medium term. RRWL also benefits immensely from the financial flexibility of its promoters who are expected to provide need based support as evidenced in the past also.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of RRWL and its subsidiary, Global Copper Pvt Ltd. CRISIL Ratings has also proportionately consolidated RRWL's joint venture (JV), RR-Imperial Electricals Ltd, to the extent of its shareholding in the JV, to reflect support required to the extent of its interest in this business.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

- **Experienced management, strong distribution network, and established clientele:** The promoters have more than four decades of experience and their in-depth understanding of the business dynamics has resulted in healthy growth for RRWL. The winding wire industry is highly competitive as the unorganized segment constitutes more than 50%. Despite this, the company has an established position in the industry on the back of its reputed client base of original equipment manufacturers (OEMs) such as Cummins India Ltd and Godrej & Boyce Manufacturing Company Ltd. Also, distribution network is strong with marketing offices at over 20 locations across India, and exports to over 70 countries. Currently, the company supplies ~70% of its products to large OEMs, and the balance to the retail market.
- **Adequate financial risk profile:** Despite the debt-funded capex of Rs 150 crore over fiscals 2018-20, financial risk profile remains adequate, driven by improving cash generation and prudent working capital management. Overall gearing is estimated to have improved to ~1.1 times as on March 31, 2022 as compared to 1.7 times as on March 31, 2021, owing to partial prepayment of term debt. Capital structure is expected to improve over the medium term on the back of healthy accrual and scheduled term debt repayment. Debt protection metrics were adequate, with interest coverage, which has been moderate at 2-2.5 times in the past 3 fiscals, estimated to have improved to 4.3 times in fiscal 2022.

Weaknesses:

- **Susceptibility of operating performance to volatility in raw material prices:** As raw material prices (mainly copper) account for around 90% of revenue, operating performance is susceptible to fluctuations in copper prices. Since value addition is low, any sharp movement in input prices will lead to lower realizations resulting in lower absorption of fixed costs, which may adversely impact profitability. The price risk is managed by placing back-to-back orders for raw materials. This is reflected in relatively stable operating margins of 4%-6% over 2016 to 2021. However, any sharp fluctuation in prices will result in inventory loss.
- **Large working capital requirement:** Majority of the company's existing debt is towards working capital requirement. The OEMs, who comprise a major chunk (about 70%) of the sales, are offered 60 days of credit against 30 days for dealers. This leads to larger working capital debt (moderate-to-high bank limit utilization). In fiscal 2017, RRWL had started providing channel financing facility to its dealers, thereby facilitating higher sales through dealers who are offered lower credit period. Despite this, working capital requirement is expected to remain large over the medium term, with gradual growth in scale of operations expected post-expansion.

Liquidity: Adequate

Cash accrual is expected to be Rs 40-50 crore per annum in the forthcoming fiscals against annual term debt obligation of Rs 17-23 crore. Utilisation of the fund-based limit averaged around 75% as on March 31, 2022 internal accrual and unutilized bank limit will be sufficient to repay debt and meet incremental working capital requirement.

Outlook: Stable

CRISIL Ratings believes RRWL will maintain its healthy business risk profile backed by its leadership position amidst improving demand scenario. Increase in scale of operations resulting in increased cash generation and absence of major capex should improve the financial risk profile over the medium term

Rating Sensitivity factors

Upward factors

- Sustained improvement in operating performance driven by sustained operating margin of around 4.5-6% leading to healthy accruals
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Key Financial Indicators

| As on/for the period ended March 31 | 2021 | 2020 |
|-------------------------------------|------|------|
| | | |

| | | | |
|----------------------------------|----------|------|-------|
| Revenue | Rs crore | 1527 | 1,446 |
| PAT | Rs crore | 16 | 15 |
| PAT margin | % | 1.0 | 1.0 |
| Adjusted debt/adjusted networkth | Times | 1.74 | 2.19 |
| Interest coverage | Times | 2.50 | 2.22 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity level | Rating assigned with outlook |
|------|--------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA | Cash Credit | NA | NA | NA | 27.50 | NA | CRISIL BBB+/Stable |

Annexure – List of entities consolidated

| Names of Entities Consolidated | Extent of Consolidation | Rationale for Consolidation |
|--------------------------------|-----------------------------|-----------------------------------|
| Global Copper Pvt Ltd | Full consolidation | Subsidiary |
| RR-Imperial Electricals Ltd | Proportionate consolidation | Operational and financial linkage |

Annexure - Rating History for last 3 Years

| Instrument | Type | Current | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|---------------------------|------|--------------------|--------------------|----------------|--------|----------|----------------------|----------|----------------------|----------|--------------------|--------------------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 27.5 | CRISIL BBB+/Stable | | -- | 04-02-21 | CRISIL BBB+/Negative | 04-05-20 | CRISIL BBB+/Negative | 17-05-19 | CRISIL BBB+/Stable | CRISIL BBB+/Stable |
| | | | -- | | -- | | -- | | -- | | -- | CRISIL BBB+/Stable |
| Non-Fund Based Facilities | ST | | -- | | -- | 04-02-21 | Withdrawn | 04-05-20 | CRISIL A2 | 17-05-19 | CRISIL A2 | CRISIL A2 |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|-------------|-------------------|------------------|--------------------|
| Cash Credit | 8.4 | Corporation Bank | CRISIL BBB+/Stable |
| Cash Credit | 19.1 | Corporation Bank | CRISIL BBB+/Stable |

This Annexure has been updated on 17-Mar-2023 in line with the lender-wise facility details as on 14-Mar-2023 received from the rated entity.

Criteria Details

| |
|--|
| Links to related criteria |
| CRISILs Approach to Financial Ratios |
| Rating criteria for manufacturing and service sector companies |
| CRISILs Bank Loan Ratings - process, scale and default recognition |
| CRISILs Criteria for rating short term debt |

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