India Ratings Affirms RR Kabel at 'IND AA-'; Outlook Stable

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India Ratings and Research (Ind-Ra) has affirmed RR Kabel Limited's (RRKL) Long-Term Issuer Rating at 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	April 2025	INR743.2 (reduced from INR1,324.2)	IND AA-/Stable	Affirmed
Fund-based working capital limits*	-	-	-	INR7,185 (increased from INR4,265)	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR1,100 (increased from INR450)	IND A1+	Affirmed

*proposed working capital limits have been converted to sanctioned limits

Key Rating Drivers

Improvement in Business Profile: RRKL acquired fast-moving electrical goods (FMEG) business from Schneider Electric Infrastructure Ltd during FY23 and is likely to diversify from the housing wires business. Furthermore, RRKL incurred a capex of INR500 million during FY22-1HFY23 to further increase the production capacity in copper and aluminium cables. RRKL has enhanced its copper capacity by 5,400 metric tonnes per annum (mtpa) to 57,600mtpa and aluminium-based medium-duty electrical cable capacity by 3,600mtpa to 18,000mtpa. The company's copper wires operating capacity improved to 78% in 1HFY23 (FY22: about 62%) backed by strong demand from both business-to-consumer (B2C) and business-2-business (B2B) end-user segments. RRKL expects to maintain capacity utilisation at 75%-80% for FY23 based on its current order enquiries. The agency believes RRKL's established distribution network and focus on its brand equity would support the company's efforts to deepen its presence in existing geographies and enter into new markets over the medium term and drive revenue growth.

Strengthening FMEG Business: RRKL has strengthened its FMEG business with a tuck-in acquisition in 1HFY23. The acquisition will improve research and development effort and retail touch points and add premium products to RRKL's existing business. The current operations are largely trading and manufacturing of consumer electricals business. The integration has provided the electrical appliance division with access to RRKL's dealer network. FMEG products include electrical appliances and equipment such as electric fans, light-emitting diode (LED) lights, tube lights, fans, air coolers, water heaters, iron, switches, among others under the brand name RR. RRKL's products are being partly manufactured by a third party on a contract basis and partly at its own manufacturing facility located at Roorkee (Uttarakhand).

Market Share Sustained amid Competition: RRKL's market share in the housing wires segment was consistent at 7%-8% in the organised market in FY22 as per management. The company also continues to strengthen its dealership network with depots across the country to explore markets in different geographies and cater to the unorganised segment. The company has been spending on brand promotion to strengthen its position in the market. It has a network is about 4,000 dealers, which is expanding further. The cable industry is fragmented with the presence of organised as well as unorganised players, leading to price competition, and the resultant pressure on the margins. However, RRKL has benefited from B2C sales with increased brand recognition likely to aid market share gains from the unorganised segment. The company's B2C segment contributed about 70% to the company overall sales in FY22.

Growth Ambitions: RRKL's growth strategy is both through organic and inorganic route, however, it would be partly equity funded to maintain the net leverage at 1.5x-2.0x. The ratings consider the established track record of the promoters of over five decades in the cable and wires sector, along with improving the business profile and robust credit metrics. RRKL also benefits from TPG Capital (with a total equity shareholding of 21% including compulsory convertible preference shares (CCPS)) present as a strategic investor. RRKL is filing for an initial public offering, and targets to complete the equity raise by December 23. The quantum and usage of proceeds are yet to be determined, and as such, the same has not been factored in Ind-Ra's base case financial projections.

Temporary Increase in Net Leverage in FY23: The EBITDA-based net leverage (net debt/operating EBITDA; including acceptances) declined to 1.2x in FY22 (FY21: 1.5x) and EBITDA interest coverage (operating EBITDA/interest cost) increased to 13.0x (8.5x) due to an increase in the operating profitability. However, in FY23, the credit metrics are likely to deteriorate owing to a fall in operating margins, led by volatility in commodity prices. The company posted operating revenue of about INR28 billion in 1HFY23 (FY22: INR43.9 billion) and EBITDA of INR1.03 billion (FY22: INR3.03 billion). The decline in EBITDA in 1HFY23 was on account of a sustained decline in copper prices and the resultant inventory write down. The estimated EBITDA margins for 1HFY23 was 3.7%. The EBITDA interest coverage declined but remained strong at 6.7x in 1HFY23. Ind-Ra believes the benefits of increased capacities will accrue in 2HFY23, generating higher operating EBITDA and margins. However, the adjusted net leverage is likely to inch up to 1.8x-2.0x in FY23 due to high working capital requirements, capex and acquisition outflows. The acquisition of INR1.2 billion is largely a working capital buyout along with brand existing manpower. The net leverage includes the acceptance letter of credit and the first loss default guarantee portion of channel financing. The agency has treated the CCPS as 100% equity as per its Hybrid Debt Criteria.

FMEG division is currently generating operating losses. The agency expects the segment to turn profitable by FY26 with the increase in the scale of operations, as guided by the management. As such a successful utilisation of the expanded capacities, growth, profitability of the FMEG segment and balance sheet debt leverage would remain the key rating monitorable.

Liquidity Indicator - Adequate: RRKL's utilisation of the fund-based and non-fund-based limits was around 56% and 90%, respectively, during the 12 months that ended October 2022. At 1HFYE23, it had cash and equivalents of INR2.0 billion (FY22: INR2.2 billion), parked in liquid mutual funds along with undrawn lines of INR3.4 billion. The company has repayment obligations of INR0.2 billion and INR0.3 billion in 2HFY23 and FY24, respectively, which the agency believes could be comfortably serviced from cash flows. The cash flow from operations improved, although remained meagre at INR0.3 billion in FY22 (FY21: negative INR1 billion) due to continued investment in working capital requirements. The agency expects the free cash flow to remain negative in FY23 (FY22: negative INR1 billion) on the back of lower EBITDA margins and incremental working capital requirements. The net working capital cycle decreased to 93 days in FY22 (FY21: 112 days) led by a reduction in receivable and inventory holding period, despite a substantial increase in commodity prices.

Inherent Industry Risk: RRKL's cash flows are susceptible to volatility in copper and aluminium prices, thus impacting profitability and liquidity. Copper and aluminium are the primary raw materials and account for 70%-75% of RRKL's product value. Although the company revises the prices every month on basis of last month's London Metal Exchange prices, the profitability would be impacted if the company is unable to pass on the price increase to its customers. Domestic wires contribute over 70%-75% to the company's revenue, and end-users of the product include real estate, power, industrial and automobile sectors. Growth/consumption in these industries is linked to the economic environment; thus, any slowdown in economic growth could lead to a moderation in demand for electrical cables. The B2C segment tends to be less volatile than B2B supported by replacement demand and a granular customer base.

Increased Competitive Intensity: Increase in participation by new entrants and the aggressive market expansion strategy of the existing players has led to an increase in competition. Also, the unorganised segment caters to a large housing cable and wires market further adding to the price competition. However, the formalisation of an unorganised market may allow consolidation by large players, given the safety and performance requirements of products and the perceived value of a branded product.

Susceptible to Forex Changes: During FY22, the company imported about 30% of the raw materials requirement and exported about 20% of its finished products. The combined effect would still leave a large exposure to foreign currencies. However, the management's strategy is to hedge its entire forex exposure through forward contracts or customer contracts. The company substantially ensures the sale of products with the simultaneous purchase of these commodities on a back-to-back basis to dampen the impact of volatile input prices.

Rating Sensitivities

Positive: An increase in the scale of operations and EBITDA margins, both on a sustained basis, along with the net leverage reducing below 1x could lead to a positive rating action.

Negative: A delay in the improvement of capacity utilisations, increase in the working capital cycle and or any debt-funded capex or acquisition, leading to the net adjusted leverage sustaining above 1.5x, on a sustained basis, could result in a negative rating action.

Company Profile

Established in 1998, RRKL manufactures light-duty and medium-duty electrical cable products in Silvassa (Dadra and Nagar Haveli and Wagoria (Gujarat). The company has presence in multiple business verticals including wires & cables catering to over 85 countries. It offers range of premium wires and cables for various residential, commercial, industrial and infrastructure purposes. RRKL is owned by Kabra Family with 90.25% stake, while the remaining is held by US-based private equity player with TPG Capital. TPG Capital also has subscribed to CCPS, which potentially can increase their equity stake to 21% upon conversion. RRKL amalgamated Ram Ratna Electricals in 2019, which manufactures FMEG products like fans, lights, switches, and spares, among few.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR million)	43,859	27,138
Operating EBITDA (INR million)	3,033	2,329
EBITDA margin (%)	6.9	8.6

EBITDA Net Interest coverage (x)	13.6	9.7
Net adjusted leverage (x)	1.2	1.5
Source: RRKL, Ind-Ra		

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outloo		
	Rating Type	Rated Limits (million)	Rating	30 September 2021	17 September 2020	
Issuer rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND A+/Stable	S
Term loan	Long-term	INR743.2	IND AA-/Stable	IND AA-/Stable	IND A+/Stable	S
Fund-based working capital limits	Long-/Short-term	INR7,185	IND AA-/Stable/ IND A1+	IND AA-/Stable/ IND A1+	IND A+/Stable /IND A1	S II
Non-fund-based working capital limits	Short-term	INR1,100	IND A1+	IND A1+	IND A1	II

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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