

## Raychem RPG Private Limited

January 07, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/ Short-term Bank Facilities (Fund-based limits)	325.00	CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Long-term rating revised from CARE AA; Negative (Double A; Outlook: Negative) and Short-term rating reaffirmed
Long-term/ Short-term Bank Facilities (Non-Fund based limits)	250.00	CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Long-term rating revised from CARE AA; Negative (Double A; Outlook: Negative) and Short-term rating reaffirmed
<b>Total Facilities</b>	<b>575.00</b> <b>(Rs. Five hundred and Seventy Five crore only)</b>		
Commercial Paper (CP) Issue	60.00	CARE A1+ (A One Plus)	Reaffirmed

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long-term bank facilities of Raychem RPG Private Limited (RRPL) is on account of decline in scale of operations and profitability in the past two years. These are on account of reduced sales owing to pandemic disruption, change in sales mix, its continuous provisioning for doubtful debts and write offs related to loss making businesses as well as company's conscious decision to cater to only those clients with adequate liquidity. With the decline in profitability, even the return ratios have deteriorated. However, the company's performance, including scale of operations and profitability, has improved from Q2FY21 onwards with pick up in order book as well as cost optimisation measures taken by the company to reduce its fixed costs.

However, the ratings derive strength from its strong parentage of TE group (flagship company is TE Connectivity Limited) and RPG group as well as operational synergies derived from them, diversified products and services portfolio leading to multiple revenue streams as well as established track record of more than three decades with strong distribution network and geographical presence. Furthermore, the ratings favorably factor in strong order book position, strong capital structure, comfortable debt servicing indicators as well as timely realisation of the receivables other than those which are already stuck owing to company's focus on orders from clients with adequate liquidity. This has resulted in reduced working capital utilization.

### Rating Sensitivities

#### Positive Factors

- Substantial increase in scale of operations by atleast 25% along with increase in PBILDT margins above 12% on a sustained basis and improvement in return ratios
- Improvement in collection period days to 100-120 days and effective working capital management.
- Improvement in overall gearing to 0.50x, on account of lower borrowings

#### Negative Factors

- Failure to maintain or improve PBILDT margins on a sustained basis and further stretch in the collection period leading to elongated operating cycle.
- Deterioration in overall gearing beyond 1.0x, on account of increased working capital or any debt funded capex

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## Detailed description of the key rating drivers

### Key Rating Strengths

#### ***Strong parentage and well established business***

RRPL was incorporated in 1984 and has a successful track record of more than three decades in the industry. The company is an equal joint venture between TE and RPG group. TE is a part of Tyco Electronics Group S.A, USA, a technology leader that designs and manufactures electronic connectors, components and systems. RPG group, established in 1979, manages diverse business interests in automotive tyres, infrastructure, information technology, pharmaceuticals, plantations and power ancillaries.

#### ***Synergies derived from promoter groups***

The company is of strategic importance to both the groups and draws synergies at various levels. TE group majorly contributes for technology, global practises and customer insights whereas RPG contributes towards managing various compliances, local support and synergies from various companies operating in similar line of business. Also, around 20% of net sales during FY20 in RRPL are derived from sales to Tyco group. The sales to Tyco group are expected to increase going forward.

The Board has equal representatives from RPG group and TE group respectively.

#### ***Diversified segmental presence and strong order book position***

RRPL's business is divided into four segments viz. Energy products, Engineering Business Unit (EBU), Oil & gas and Transformers. This diversification helps the company to manage its cash flow in state of sluggishness in one segment by compensating the revenue from other. In FY20, Energy division contributed 47%, followed by Transformers at 24% and EBU at 20%. Transformers division performed better when compared to FY19 levels, due to increase in orders. RRPL earns revenue from both domestic as well as exports sales.

Whereas during 7MFY21, RRPL derived around 50% of revenue from Energy segment, 21% from both EBU and Transformers division followed by 8% from Oil and Gas segment.

Going forward, with the strong order book of around Rs.514 crore as of December 31, 2020, which is to be executed over next four to five months, the company is expected to achieve revenue closer to Rs.1,000 crore.

#### ***Wide dealership network and geographical presence***

RRPL has three manufacturing facilities in India along with tie-ups with strategic vendors for manufacturing of few products. The company has a wide marketing and dealer network in and outside India, to provide comprehensive product information and distribution of products. The company has around 100 national dealers and around 75 global channel partners for wider geographical reach. In FY20, out of total sales, around 62% is contributed through sales in India and balance 38% is through exports.

#### ***Strong capital structure and comfortable debt servicing indicators***

The debt profile of the company consists of working capital borrowing and acceptances only. The internal accruals of the company majorly fund the increase in fixed assets/ acquisitions and working capital financing requirement. Overall gearing as on March 31, 2020 improved to 0.39x as against 0.79x as on March 31, 2019, owing to decline in total debt. The company has been able to timely collect its receivables which led to lower dependence on working capital borrowings. With decline in PBILDT during the year, interest coverage ratio moderated, however, it was comfortable at 3.22 times in FY20.

### Key Rating Weaknesses

#### ***Moderation in scale of operations in FY20 in FY21***

The scale of operations of RRPL continuously declined in the past two years; from Rs.1,264 crore in FY18 to Rs. 1168 crore in FY19 and further to Rs.1,059 crore in FY20. This is mainly due to company refraining itself from selling goods to those customers who were facing liquidity challenges and also due to outbreak of COVID which led to sales loss of around Rs.110 crore during March 2020. PBILDT margins also declined from 11.03% in FY18 to 8.17% in FY19 and further to 4.77% in FY20. The decline in PBILDT margin in FY20 was due to decline in scale of operations, change in sales mix, and provisioning of doubtful debts on certain businesses exited and other receivables. Absolute PAT deteriorated from Rs.72.46 crore in FY18 to Rs.6.43 crore in FY20 on account of reasons mentioned above and due to increase in depreciation and finance costs on account of application of Ind AS 116. Adjusting for provisions in FY20, PBILDT margin would have been around 8%.

The performance of the company improved from Q2FY21 onwards with opening of economy and improvement in demand. The company achieved sales of Rs.462 crore from July 2020 till November 2020 as against Rs.164 crore in Q1FY21, registering total sales of Rs.626 crore during 8MFY21 as against Rs.692 crore during 8MFY20

PBILDT margin improved to 8.61% during 8MFY21 as against 5.13% during corresponding period last year on account of cost optimisation measures undertaken by the company leading to cut in fixed costs.

Going forward, the company is expected to make further provisions on its doubtful debts and loss making businesses during Q4FY21, which would affect company's profitability and return ratios.

#### ***Client concentration risk towards power sector***

On an average including sale from Transformer segment, most of the gross sales in the company are derived from power sector resulting in concentration risk. Consequently, RRPL is exposed to vagaries grappling the power sector. However, in

power sector, the company's major revenue is derived from transmission and distribution, and renewables segment companies. The long-term demand outlook for the domestic transmission and distribution industry/ renewables sector is expected to be favourable due to the focus on reforms in transmission and distribution segment and investments lined up in the power generation sector including UDAY scheme to bridge the demand-supply gap in a cost effective manner, hence, insulating the company to some extent.

### Prospects

Business prospects of RRPL are directly linked to the domestic as well as world's economic scenario, spending by state utilities, government agencies towards infrastructure, government intervention in resolving issues such as delayed payment by discoms leading to liquidity issues among the suppliers and project clearances. Due to pandemic, Q1 was impacted badly. However, situation has been improving from Q2 onwards. The company is receiving higher orders both from domestic and exports side especially in Transformers and Oil and gas segments, where the current capacity utilisation is full and the company is focusing on to create more assembly lines to cater to the orders from these segments. The company is also witnessing higher order inflow from TE group. For RRPL, with its conscious decision on not catering to clients suffering from liquidity and exiting of certain business lines, performance in FY22 is expected to improve, which is a key rating monitorable.

**Liquidity: Strong** - The Company as on September 30, 2020, had cash and cash equivalents of Rs.6.57 crore. Also, with timely receipt of money from its debtors, the company is effectively managing its cash flow. This has also led to only 50% utilisation of fund-based working capital limits for past 12 months. The unutilised limit adds cushion to company's liquidity. The company has availed moratorium as prescribed by Reserve Bank of India from a lender for a fund-based facility (in tranche I).

**Analytical Approach:** Standalone. The ratings factor in financial strength and resourcefulness of the promoters TE group and RPG group as well as operational synergies derived from the promoter groups.

### Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Rating Methodology: Factoring Linkages in Rating](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

### About the Company

Raychem RPG Private Limited (RRPL) was incorporated IN 1984. RRPL was established as a joint venture between Raychem Corporation, USA and RPG group (promoter holding entity of RPG group - Sri Parvathi Suthan Trading Company LLP). In 1999, Raychem Corporation, USA was acquired by TE Connectivity Limited. Currently, both RPG and TE group (promoter holding entity of TE group - Raychem International Manufacturing LLC, USA) are equal shareholders in RRPL. RRPL operates in the energy and infrastructure sectors offering technological engineering products and solutions through its Strategic Business Units (SBU).

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	1,168.09	1,059.13
PBILDT	95.40	50.47
PAT	43.57	6.43
Overall Gearing (times)	0.79	0.65
Interest coverage (times)	7.55	3.22

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	325.00	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	250.00	CARE AA-; Stable / CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	7 to 364 days	60.00	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	325.00	CARE AA-; Stable / CARE A1+	1)CARE AA; Negative / CARE A1+ (12-Jun-20)	1)CARE AA; Stable / CARE A1+ (06-Jan-20)	1)CARE AA; Stable / CARE A1+ (03-Jan-19)	1)CARE AA; Stable / CARE A1+ (07-Aug-17) 2)CARE AA; Stable / CARE A1+ (12-Jul-17)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	60.00	CARE A1+	1)CARE A1+ (12-Jun-20)	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (03-Jan-19)	1)CARE A1+ (07-Aug-17) 2)CARE A1+ (12-Jul-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	250.00	CARE AA-; Stable / CARE A1+	1)CARE AA; Negative / CARE A1+ (12-Jun-20)	1)CARE AA; Stable / CARE A1+ (06-Jan-20)	1)CARE AA; Stable / CARE A1+ (03-Jan-19)	1)CARE AA; Stable / CARE A1+ (07-Aug-17) 2)CARE AA; Stable / CARE A1+ (12-Jul-17)

**Annexure-3: Detailed explanation of covenants of the rated instrument/ facilities – NA****Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Name – Mr. Mradul Mishra  
Contact no. – 022 6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name – Ms. Sharmila Jain  
Contact no. - 022 6754 3638  
Email ID - [sharmila.jain@careratings.com](mailto:sharmila.jain@careratings.com)

### Relationship Contact

Name – Mr. Saikat Roy  
Contact no. – 022 6754 3404  
Email ID – [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**