



Press Release

RMC Switchgears Limited

October 21, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	18.10	IVR BB-; Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	30.90	IVR A4 (IVR A Four)	Assigned	Simple
Short Term Bank Facilities (Proposed)	1.00	IVR A4 (IVR A Four)	Assigned	Simple
Total	50.00 (INR Fifty crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of RMC Switchgears Limited (RMCSL) derives comfort from long operational track record of the company under experienced promoters, satisfactory orderbook position indicating a revenue visibility with reputed clientele base. Further, the ratings also note improvement in the scale of operation of the company in FY22 and in Q1FY23 coupled with satisfactory capital structure and moderate debt protection metrics. Moreover, the company is planning to issue fresh equity shares by way of preferential allotment which would further strengthen the company's net worth position in the near term. These rating strengths are partially offset by its small scale of operation, past instances of delay, tender driven nature of business, exposure of client concentration coupled with high working capital intensive nature of its operation.

Key Rating Sensitivities:

Upward factors

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement gross cash accruals.
- Improvement in the capital structure with improvement in debt protection metrics marked by rise in interest coverage ratio to over 3x
- Improvement in average collection period leading to improvement in operating cycle and liquidity.



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Downward Factors

- Moderation in scale of operations and/or moderation in profitability impacting the debt protection metrics on a sustained basis.
- Withdrawal of subordinated unsecured loan of Rs.4.90 crore and any unplanned capex leading to moderation in the capital structure with moderation in the overall gearing to over 1.5x.
- Further elongation in operating cycle impacting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long operational track record**

The promoters of the company have long standing experience of nearly two decades in the electrical industry. The promoters are well supported by a team of experienced personnel.

- **Satisfactory orderbook with reputed clientele base**

RMC mainly bids for tenders of various government DISCOM's. As on May 31, 2022, RMC has an unexecuted order book of ~Rs.112.96 crore which is ~2.72 times of FY22 revenue providing strong revenue visibility. Additionally, company has been declared L1 for a Rs.236 crore order from Maharashtra State Electricity Dist. Co. Ltd. The pending orders are expected to be executed in coming one to two years suggesting viable short to medium term revenue visibility.

- **Improvement in scale of operation in FY22 and in Q1FY23**

RMC's total operating income had witnessed an erratic trend over the past three years during FY20-FY22 as the topline declined from Rs.131.75 crore in FY19 to Rs.59.39 crore in FY20 followed by a further decline to Rs.36.65 crore in FY21. In FY20, the decline in topline was mainly due to lack of new work orders during that period as the company started focusing on higher margin order and thus opted for selective bidding. During FY21, the operations of the company was impacted due to Covid pandemic. However, in FY22 the topline has witnessed marginal improvement by ~14% to Rs.41.56 crore with on the back of better execution of existing work orders in the post pandemic scenario. The EBITDA margin of the company remained healthy over the years. However, despite the improvement in TOI in FY22, EBITDA margin though moderated yet remained healthy at 13.35% against 18.24% of FY21. The dip in margin is mainly due to significant hike in raw materials prices such as



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Aluminum Bars/Pipes, Copper Sheet/Copper/Brass during the period. Notwithstanding, the dip in EBITDA margin the PAT margin has improved marginally from 1.22% in FY21 to 1.37% in FY22. Gross cash accruals also improved from Rs.2.79 crore in FY21 to Rs.3.51 crore in FY22. RMC has registered a strong y-o-y growth of ~201% during Q1FY23 as the topline stood at Rs.29.08 crore driven by the improved orderbook and better execution of the same during the period. The EBITDA margin has also remained healthy at 17.95%.

- **Satisfactory capital structure and moderate debt protection metrics**

The capital structure of the company remained satisfactory over the past three account closing dates backed by its moderate net worth base. The net worth of the company including subordinated unsecured loan of Rs.4.90 crore (ATNW) stood at Rs.33.32 crore as on March 31,2022. As on March 31, 2022, the adjusted long-term debt to equity and overall gearing has improved and stood at 0.54x and 1.10x respectively as against 0.58x and 1.25x respectively as on March 31, 2021.Overall indebtedness of the company marked by TOL/ATNW has improved and stood at 1.49x as on March 31, 2022, against 1.75x as on March 31, 2021. The debt protection matrices marked by interest coverage has improved to 1.81x in FY22 from 1.63x in FY21.

Key Rating Weaknesses:

- **Small scale of operation**

The company has witnessed a gradual decline in its topline over that past couple of years. In FY22, though the topline has grown marginally to Rs. 41.56 crore, the scale of operation remains small. However, backed by its improved order book position, the scale of operation is expected to improve in the coming years.

- **Tender driven nature of business**

RMC's business is dependent on the company's ability to successfully bid for the tenders. Further, the domestic electrical sector is fragmented with presence of many players with varied statures & capabilities. This restricts RMC's operating and financial flexibility.

- **Exposure to client concentration risk**

Top ten customer of RMCSL attributing a ~92% of total sales suggest high client concentration of risk. Out of the top 10 customers, Maharashtra State Electricity Dist. Co. Ltd. solely contributed ~63% of revenue. Any delay in execution of pending orders might create liquidity crunch and hamper the company's credibility as well.

- **Working capital intensive nature of operation**



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The operating cycle is on the higher side as it stood at 244 days in FY22 marginally improved from 284 days in FY21. The high operating cycle is primarily due to high average collection period of 246 days in FY22 against 351 days in FY21. The debtors of the company also include amount blocked as retention money in DISCOM's.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

The liquidity profile of RMC is expected to improve driven by its healthy expected gross cash accruals in the near term backed by improvement in its order book and timely execution of the same. Moreover, the company also has satisfactory gearing headroom on the back of its satisfactory capital structure. The average working capital utilisation remained moderate at ~85% during the last 12 months ended August 2022. However, the liquidity position of the company is restricted due to its working capital-intensive nature of operation mainly due to its elongated average collection period. Earlier the company has experienced a delay in its debt servicing obligations, however with improvement in its cash flows the company has no delay in its debt servicing in the past three months.

About the Company

Rajasthan based RMC Switchgears Limited (RMCSL) promoted by one Mr. Ashok Kumar Agarwal was originally established as RFH Metal Casting Private Limited back in 1994. The company is engaged in manufacturing of LT/HT Distribution Boxes and Panels, Junction Boxes, Feeder Pillars, other Power Distribution, Circuit Protection Switchgears, PVC designer UV Sheets & Acrylic Solid Surface products. The manufacturing facilities of the company are located at Badodiya Village, under Chaksu Tehsil with its installed production capacity of ~36,000MT.

Financials of RMC Switchgears Limited (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	36.65	41.56



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EBITDA	6.69	5.55
PAT	0.45	0.58
Total Debt	37.25	36.59
Tangible Net worth	27.78	28.42
Adjusted Tangible Net worth	29.69	33.32
EBITDA Margin (%)	18.24	13.35
PAT Margin (%)	1.22	1.37
Overall Gearing Ratio (x)	1.25	1.10
Interest Coverage Ratio (x)	1.63	1.81

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CARE Edge ratings vide its press release dated March 23, 2022 had continued the rating under issuer not cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	13.45	IVR BB-; Stable	-	-	-
2.	ECLGS	Long Term	3.98	IVR BB-; Stable	-	-	-
3.	Term Loan	Long Term	0.67	IVR BB-; Stable	-	-	-
4.	Bill Discounting	Short Term	5.00	IVR A4			
5.	Bank Guarantee	Short Term	25.90	IVR A4	-	-	-
6.	Bank Guarantee (Proposed)	Short Term	1.00	IVR A4			

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange



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Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	13.45	IVR BB-; Stable
Long Term Fund Based Limits - ECLGS	-	-	-	3.98	IVR BB-; Stable
Long Term Fund Based Limits – Term Loan	-	-	May 2024	0.67	IVR BB-; Stable
Short Term Fund Based Limits – Bill Discounting	-	-	-	5.00	IVR A4
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	25.90	IVR A4
Short Term Non-Fund Based Limits –Proposed Bank	-	-	-	1.00	IVR A4



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Guarantee					
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Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-RMC-Switchgears-oct22.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

