February 17, 2023

Rockwell Industries Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based / CC	15.00	40.00	[ICRA]BBB+ (Stable); Reaffirmed and assigned
Non-fund based	15.35	25.00	[ICRA]A2; Reaffirmed and assigned
Unallocated	6.65	0	-
Total	**37.00**	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the significant increase in Rockwell Industries Ltd.'s (RIL) operating income (OI) and operating profits in FY2022, which are expected to improve in FY2023. RIL's OI increased by 45% to Rs. 175.2 crore in FY2022, aided by improved domestic demand and lower imports from China, whereas the operating profits grew by 47.5% to Rs. 20.8 crore, driven by better absorption of fixed expenses. Its OI is estimated to increase by 33-35% in FY2023, which are likely to support increased accruals. The low debt levels and rise in operating profits supported the strong debt coverage metrics, with interest cover at 12.1 times and DSCR at 9.70 times in FY2022. The ratings continue to note RIL's established track record of over three decades in the commercial refrigeration industry and its established relationship with a diversified customer base. Further, the company expanded its distribution network with 547 dealers in FY2022 (PY: 277 and 35 in FY2017), which aided revenue growth while enabling control over the receivable cycle for the company as it does not give credit to the dealers.

The ratings, however, are constrained by the increase in the working capital intensity to 26% in FY2022 from 17% in FY2021 owing to an increase in inventory days to 117 as on March 31, 2022, from 97 as on March 31, 2021. Given the seasonality in sales – with major portion of sales taking place during January to June – the financial year-end inventory levels remain high. Notwithstanding the improvement in capacity utilisation to 67% in FY2022 from 44% in FY2021, the utilisation remains moderate. However, the production is expected to improve in FY2023, supported by the higher domestic demand for freezers. The ratings factor in the intense competition in the commercial refrigeration industry with presence of large domestic players and cheap imports from China limiting the company's pricing flexibility. RIL's profitability remains susceptible to fluctuations in input prices such as steel and copper prices.

The Stable outlook reflects ICRA's opinion that RIL will continue to benefit from its established product profile and diversified customer base.

Key rating drivers and their description

Credit strengths

Established track record in commercial refrigeration industry- The company has an established track record with over three decades of experience in the commercial refrigeration industry manufacturing products such as freezers, eutectic freezers, visi-coolers, and push-cart freezers. RIL produces energy efficient products such as eutectic freezers and solar freezers which are sold under the Rockwell brand.

Established customer base and expanded distribution network: RIL had been supplying to major players in the beverage, ice cream and dairy segments over the years. The customer concentration is low with top five customers accounting for ~18.3% of revenues in FY2022. Further, the company has been continuously expanding its distribution network to 277 in FY2021 from

35 in FY2017 and to 547 dealers in FY2022, thereby aiding revenue growth while enabling control over the receivable cycle for the company as it does not give credit to the dealers.

Increase in OI, operating profits in FY2022 and expected to improve further in FY2023; debt coverage metrics to remain strong in FY2023: RIL's OI increased by 45% to Rs. 175.2 crore in FY2022 supported by an improved domestic demand and lower imports from China. The operating profits increased by 47.5% to Rs. 20.8 crore supported by better absorption of fixed expenses. RIL's OI is expected to increase by 33-35% in FY2023 which are likely to support the increased accruals. The low debt levels and the increase in the operating profits have supported the strong debt coverage metrics with interest cover at 12.1 times and DSCR at 9.70 times in FY2022, which are expected to remain strong in FY2023.

Credit challenges

Increase in working capital intensity as of March 2022: RIL's working capital intensity increased to 26% as of March 2022 from 17% as of March 2021 due to higher inventory. Given the seasonality, the major portion of sales takes place during January to June the financial year-end inventory levels remain high, which increased to Rs. 43.32 crore as on March 31, 2022 (117 days) from Rs. 23.81 crore as on March 31, 2021 (97 days). This has resulted in RIL availing additional limits to meet its working capital requirements.

Moderate capacity utilization – Notwithstanding the improvement in the capacity utilization to 67% in FY2022 from 44% in FY2021, the utilization remains at moderate levels. However, the production is expected to improve in FY2023 supported by the higher domestic demand for freezers.

Profitability exposed to competitive pressures and fluctuations in input prices: The competition in the commercial refrigeration industry is high with the presence of large domestic players and cheap imports from China limiting the company's pricing flexibility. The company's profitability remains susceptible to any fluctuations in the input prices such as steel and copper prices. RIL has undertaken price hikes of 10-11% during FY2022 to pass on the recent increase in the input prices.

Liquidity position: Adequate

RIL had free cash and liquid investments of Rs. 30.3 crore as on March 2022 and has limited debt repayment obligations of Rs. 1.36 crore in FY2023. The average working capital utilization during 12-month period ended December 2022 for the sanctioned cash credit limits is low at 48%. The company has received enhancement in fund-based limits by Rs. 20 crore to meet working capital requirement. RIL has capex plans of Rs. 10 crore in FY2023 which are expected to be funded largely through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade RIL's ratings if there is any significant growth in revenues and operating profitability along with improvement in the working capital cycle resulting in improvement in liquidity while maintaining healthy debt coverage metrics.

Negative factors – Pressure on RIL's ratings could arise if there is any significant decline in revenues and profitability or a stretch in the working-capital cycle, or a significant debt-funded capex which weakens liquidity. Specific credit metrics that could lead to a revision of RIL's rating includes Total Debt/OPBITDA greater than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

Note (for analyst reference only):

About the company

Incorporated in 1986, Rockwell Industries Ltd. (RIL) manufactures commercial refrigeration appliances such as freezers, eutectic freezers, water coolers, and push-cart freezers, as well as kitchen refrigeration appliances including stainless steel cabinets in horizontal and vertical forms. It has two manufacturing units at Medchal in Telangana. The company is promoted by Mr. Ashok K. Gupta, who has more than three decades of experience in the commercial refrigeration industry.

Key financial indicators (audited)

Rockwell Industries Limited	FY2021	FY2022
Operating income	120.6	175.2
PAT	9.7	13.9
OPBDIT/OI	11.7%	12.1%
PAT/OI	8.0%	7.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	1.0	1.4
Interest coverage (times)	19.2	11.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 17, 2023	Sep 09, 2022	Jul 30, 2021	July 09, 2020	-
1	**Fund-based/CC**	Long term	40.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	-
2	**Non-fund based**	Short term	25.00	-	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A3+**	**[ICRA]A3+**	-
3	**Unallocated limits**	Long term	0.00	-	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/CC	Simple
Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based/CC**	-	-	-	40.00	[ICRA]BBB+ (Stable)
NA	**Non-fund based**	-	-	-	25.00	[ICRA]A2

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure-II: List of entities considered for consolidated analysis.

Not applicable.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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