January 25, 2022

Rasi Electrodes Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based/ CC	10.00	10.00	[ICRA]BB+ (Stable); reaffirmed
Long-term Interchangeable	(2.00)	(2.00)	[ICRA]BB+ (Stable); reaffirmed
Short-term Interchangeable	(15.00)	(15.00)	[ICRA]A4+; reaffirmed
Total	**10.00**	**10.00**	

Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings continues to factor in Rasi Electrodes Limited's (REL) extensive experience of its promoters and the company's track record in the welding consumables business, which caters to various industries, including infrastructure and auto ancillary. The ratings favourably note the revenue growth with an improved demand and execution in the current fiscal. ICRA also notes REL's favourable financial profile, characterised by a comfortable capital structure and healthy debt protection metrics.

The ratings, however, are constrained by the high product concentration and moderate scale of operations—the revenue was Rs. 39.7 crore in FY2021 and Rs. 29.8 crore in H1 FY2021— limiting the benefits from the economies of scale and other operational and financial flexibility. The ratings are further constrained by an intense competition and cyclicity of the industry segment. The ratings also consider the vulnerability of REL's margins to the fluctuations in raw material prices and exposure to fluctuation in forex rates to the extent of the unhedged position.

The Stable outlook reflects ICRA's expectations that the company would continue to maintain its credit profile with an expected improvement in revenue, profit margins and an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – Established in 1995, the promoters have an extensive experience in the welding consumables business, for more than two decades. REL has an established presence and brand value that has enabled the company to scale-up its operations in the last five years.

Comfortable capital structure and coverage indicators – REL's financial profile remains favourable with a comfortable capital structure and healthy coverage indicators. Its capital structure, characterised by the total debt/tangible net worth was 0.2 time as on March 31, 2021, supported by a relatively lower reliance on external borrowings. The debt protection metrics remined comfortable with an interest coverage of 8.1 times and TD/OPBDITA of 1.7 times in H1 FY2022.

Credit challenges

Moderate scale of operations – The company's scale of operations remained moderate, with revenues of Rs. 39.7 crore in FY2021 resulting in limited economies of scale and market position. Though, the revenue has improved in H1 FY2022 and is expected to grow on similar lines in FY2022, it continues to remain relatively low.

Modest profitability with exposure to raw material price fluctuations – The industry is characterised by minimal entry barriers, leading to high fragmentation and an intense competition from both regional small-scale and some established players. While the company deals only in welding consumables, some of the competitors offer a more diverse range of products in their portfolio. High level of fragmentation coupled with the volatility in raw material prices limit REL's pricing flexibility considerably. The same has resulted in modest operating margins, with 5.5% in H1 FY2022 against 6.4% in FY2020.

Cyclicality of business – The customers of REL are primarily from the auto ancillaries and construction segments which exposes the company to cyclical turns of the respective industries, hence its revenue and cash accruals remain vulnerable to the same. Its performance in FY2021 remained subdued due to the pandemic-related economic slowdown. However, with a recovery in demand, the company witnessed an improvement in revenues in H1 FY2022.

Liquidity position: Adequate

The company's liquidity position is adequate, characterised by a sufficient buffer in its working capital facilities and moderate cash balances. The working capital utilisation has been moderate, with an average utilisation of 41.4% of the sanctioned limits (undrawn line of credit of ~Rs. 4.1 crore as on December 31, 2021) during October 2020 to December 2021. The company does not have any fixed-term debt obligation, or capital expenditure (capex) plans.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to improve its scale of operations along with an improvement in margins on a sustained basis while maintaining healthy debt protection metrics.

Negative factors – ICRA may downgrade the ratings if the liquidity profile, capital structure or cash accruals weaken on a sustained basis. Specific credit metrics that may downgrade REL's rating would be an interest coverage ratio of less than 2.5 times on a consistent 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.

About the company

Rasi Electrodes Limited, incorporated in 1995, specialises in manufacturing welding consumables, catering to the requirements of diverse heavy and light engineering industries. The company caters to the needs of public sector undertakings (PSU), private engineering conglomerates and original equipment manufacturers(OEM). It also trades in goods such as power tools, grinding wheels, transformers, MIG/MAG machines, rectifiers and natural rutile ore. The products primarily fall into two categories – electrodes and copper coated mild steel wires – both of which are used in welding. The products are available in different categories and grades that find applications in many industries. REL also has plans to enter the agro-trading business in the future which is likely to be funded through internal accruals

Key financial indicators (audited)

REL Standalone	FY2020	FY2021	H1 FY2022 (Prov)
Operating Income (Rs. crore)	46.5	39.7	29.8
PAT (Rs. crore)	0.5	1.4	1.1
OPBDIT/OI (%)	4.2%	6.4%	5.5%
PAT/OI (%)	1.1%	3.4%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3	0.3
Total Debt/OPBDIT (times)	1.3	2.2	1.7
Interest Coverage (times)	4.2	6.9	8.1

**PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					January 25,2022	Nov 13, 2020		
1	Cash Credit	Long Term	10.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	Interchangeable	Long Term	(2.00)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
3	Interchangeable	Short Term	(15.00)	-	[ICRA]A4+	[ICRA]A4+	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Interchangeable limits	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 and 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: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	10.00	**[ICRA]BB+ (Stable)**
NA	Long-term – Interchangeable	-	-	-	(2.00)	**[ICRA]BB+ (Stable)**
NA	Short-term – Fund based	-	-	-	(9.00)	**[ICRA]A4+**
NA	Short-term – Non-Fund based	-	-	-	(6.00)	**[ICRA]A4+**

Source: *REL*

Annexure-2: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

For more information, visit www.icra.in

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