

March 07, 2023

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 – Cash credit	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 I

Rationale

The reaffirmation of the ratings continues to factor in the extensive experience of the promoters of Rasi Electrodes Limited (REL) 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 in FY2022 and 9M FY2023 with improved demand from its end-user industries, following the uptick in the capex cycle and manufacturing activities. ICRA also notes REL's favourable financial profile, characterised by a comfortable capital structure and debt protection metrics.

The ratings are, however, constrained by the high product concentration and moderate scale of operations although the revenue improved to Rs. 69.21 crore in FY2022 and Rs. 65.53 crore in 9M FY2023 against Rs. 39.7 crore in FY2021, limiting the benefits from the economies of scale and other operational and financial flexibilities. The ratings are further constrained by the intense competition and cyclicity of the industry segment and the vulnerability of REL's margins to the fluctuations in raw material prices.

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

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – REL was established in 1995. The promoters have an experience of more than two decades in the welding consumables business. 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 0.36 times as on March 31, 2022, supported by a relatively lower reliance on external borrowings. The debt protection metrics remained comfortable with an interest coverage of 7.8 times and TD/OPBDITA of 2.7 times in FY2022 and 0.9 times in H1 FY2023.

Credit challenges

Moderate scale of operations - The company's scale of operations remained moderate, though it increased to Rs. 69.21 crore in FY2022 and Rs. 65.53 crore in 9M FY2023. This, coupled with a modest net-worth base, exposes the company to the risk of business downturn resulting in limited economies of scale and market position.

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, considerably limits REL’s pricing flexibility. Due to the sharp increase in the raw material prices and its inability to pass on the rise in input costs to its customers, the operating margin of the company moderated to 5.2% in FY2022 (6.0% in 9M FY2023) against 6.4% in FY2021.

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. Further, it derives a major portion of its revenues of ~60% from the automobile and auto ancillary industry, accentuating the risk of demand volatility.

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 51% of the sanctioned limits (undrawn line of credit of Rs. 6.49 crore as on January 31, 2023) during January 2022 to January 2023. The company does not have any fixed-term debt obligation, or capital expenditure (capex) plans in the near term.

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 and adequate liquidity.

Negative factors – ICRA may downgrade the ratings if the liquidity profile, capital structure or cash accruals weaken on a sustained basis. A specific credit metric for downgrade is 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 and drawn wires– which are used in welding. The products are available in different categories and grades that find application in many industries.

Key financial indicators (Audited)

	FY2021	FY2022
Operating income (Rs. crore)	39.7	69.2
PAT (Rs. crore)	1.4	2.0
OPBDIT/OI (%)	6.4%	5.2%
PAT (%)	3.4%	3.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	2.2	2.7
Interest coverage (times)	6.9	7.8

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 (FY2023)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Current rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 07, 2023	Jan 25, 2022	Nov 13, 2020	-
1 Long term - Fund based – Cash credit	Long-Term	10.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
2 Long term – Interchangeable	Long-Term	(2.00)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
3 Short term- Interchangeable	Short-Term	(15.00)	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - Fund based – Cash credit	Simple
Long term – Interchangeable	Very Simple
Short term- Interchangeable	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund based – Cash credit	NA	NA	NA	10.00	[ICRA]BB+ (Stable)
NA	Long term – Interchangeable	NA	NA	NA	(2.00)	[ICRA]BB+ (Stable)
NA	Short term- Interchangeable	NA	NA	NA	(15.00)	[ICRA]A4+

Source: Company; Note: Amount in Rs. crore

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

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545304

sabyasachi@icraindia.com

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Sanket Thakkar

+91 079 4027528

sanket.thakkar@icraindia.com

Surabhi Jhaveri

+91 40 40676522

surabhi.jhaveri@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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