

March 20, 2024

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)	(10.00)	[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 also factor in REL's favourable financial profile, characterised by comfortable capital structure and debt protection metrics.

The ratings are, however, constrained by high product concentration and the moderate scale of operations although the revenue improved to Rs. 88.7 crore in FY2023 from Rs. 69.2 crore in FY2022. However, the revenue has moderated to Rs. 61.1 crore in 9M FY2024, limiting the benefits from the economies of scale and other operational and financial flexibility. The ratings are further constrained by intense competition, the 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 over the past few years.

Comfortable capital structure and coverage indicators - REL's financial profile remains favourable with comfortable capital structure and healthy coverage indicators. Its capital structure, characterised by a gearing of 0.1 times as on March 31, 2023, is supported by a relatively low reliance on external borrowings. The debt protection metrics remained comfortable with an interest coverage of 11.1 times and TD/OPBDITA of 0.6 times in FY2023 and interest coverage of 19.8 times in 9M FY2024.

Credit challenges

Moderate scale of operations - The company's scale of operations remained moderate, though it increased to Rs. 88.7 crore in FY2023 from Rs. 69.2 crore in FY2022. The scale moderated to Rs. 61.1 crore in 9M FY2024. 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. The high level of fragmentation and the volatility in raw material prices limit REL's pricing flexibility. REL's operating margin declined to 4.8% in 9M FY2024 from 5.7% in FY2023 owing to a sharp drop in raw material prices, resulting in inventory losses.

Cyclicality of business - The customers of REL are primarily from the auto ancillary and construction segments, making its revenue and cash accruals vulnerable to the cyclicality of the end-user industries. Further, it derives ~60% of its revenues from the automobile and auto ancillary industries, accentuating the risk of demand volatility.

Liquidity position: Adequate

The company's liquidity position is adequate, characterised by sufficient buffer in its working capital facilities and moderate cash balances. The working capital utilisation has been moderate, with an average utilisation of 17% of the sanctioned limits during January 2023 to December 2023. The company does not have any fixed-term debt obligation in the near term. The company has capex plans of Rs. 3-4 crore in FY2025 towards enhancing the capacity, and this is expected to be funded from internal accruals.

Environmental and Social Concerns:

The company is primarily involved in manufacturing welding consumables and has been taking various measures to minimise the operational impact on the environment. The manufacturing facilities are compliant with all the applicable environmental norms/guidelines. REL faces social risks arising from the health and safety hazards that its operations could create for the community that might result in a backlash. However, REL's track record of carrying out its operations responsibly over the years provides comfort.

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)

REL Standalone	FY2022	FY2023	9M FY2024*
Operating income	69.2	88.7	61.1
PAT	2.0	3.0	2.2
OPBDIT/OI	5.2%	5.7%	4.8%
PAT/OI	3.0%	3.4%	3.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.2	-
Total debt/OPBDIT (times)	2.7	0.6	-
Interest coverage (times)	7.8	11.1	19.8

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 20, 2024	Mar 07, 2023	Jan 25, 2022	Nov 13, 2020
1 Fund based – Cash credit	Long term	10.00	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Interchangeable	Long term	(2.00)	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3 Interchangeable	short term	(10.00)	--	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instruments

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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	(10.00)	[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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