November 13, 2020

# Rasi Electrodes Limited: [ICRA]BB+(Stable)/A4+ assigned

## Summary of rated instruments

| Instrument | Current Rated Amount (Rs. Crore) | Current ratings |
|---|---|---|
| Long term – FB/CC | 10.0 | [ICRA]BB+(Stable), assigned |
| Long term – Interchangeable | (2.0) | [ICRA]BB+(Stable), assigned |
| Short term – Interchangeable | (15.0) | [ICRA]A4+, assigned |
| **Total** | **10.0** | |

**Instrument details are provided in Annexure-1.*

## Rationale

The assigned rating for Rasi Electrodes Limited considers the extensive experience of the promoters in the welding consumables business and its healthy financial profile. The company's financial profile is characterised by a healthy capital structure with a low level of gearing at 0.11 times as on March 31, 2020 against 0.25 times in March 31, 2019. The company's debt protection metrics such as interest coverage and DSCR have been adequate.

However, the rating is constrained by the company's exposure to volatility in prices of raw materials, intense competition in the industry, and cyclicality of the industry segment. The company's profitability is under pressure, as illustrated by a decline in the operating margin to 3.07% in FY2020 from 7.83% in FY2017. ICRA expects the company's revenue to decline in FY2021 because of the Covid-19 related lockdown and the related demand slowdown. Nonetheless, its long-term growth is likely to be in line with the performance of the auto component and construction industries. The ratings also factor in the company's modest scale of operation and high product concentration.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the company will benefit from the established track record in the welding consumables industry and extensive experience of the promoters in this line of business.

## Key rating drivers and their description

## Credit strengths

**Extensive experience of promoters** – Established in 1995, the promoters have extensive experience in this line of business, spanning more than two decades. The company has established presence and brand value and the same has enabled the company to scale up its operations in the last five years.

**Healthy capital structure -** The company had a low gearing and TOL/TNW at around 0.11 times and 0.22 times, respectively in FY2020 on account of a healthy net worth position of Rs. 23.27 crore as on March 31, 2020. The interest coverage and DSCR were healthy at 3.0 and 4.4, respectively in FY2020. As the company is not expected to take on any major debt, the capital structure is likely to remain healthy and stable.

## Credit Challenges

**Moderate scale of operations –** The company's operating capacity is much smaller than some of its established competitors. The company derives modest economies of scale benefits and has moderate operational/financial flexibility due to its modest scale of operations.

**Modest profitability –** The industry is characterised by minimal entry barriers, leading to high fragmentation and intense competition. The competition is from both regional small-scale players 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 limits the pricing flexibility considerably. The same has resulted in modest operating margins, as illustrated by 3.07% in FY2020 against 5.76% in FY2019. ICRA also notes that the modest operating margin in FY2020 was on account of the write-off to the tune of Rs. 1.55 crore.

**Cyclicality of business –** The customers of Rasi Electrodes Limited are primarily from the auto ancillaries and construction segments. Both these industries are cyclical in nature and the company's revenue and cash accruals remain vulnerable to the same. The company's performance in FY2021 is likely to remain under pressure on account of lockdown and the Covid-19 related economic slowdown. The same was witnessed in Q1FY2021 when the company managed to generate a meagre revenue (as both construction and auto ancillary sectors were substantially affected by the lockdown restrictions). Hence the performance of Rasi Electrodes Limited remains contingent on the cyclical turns of the respective industries.

## Liquidity position: Adequate

Rasi Electrodes Limited's liquidity position is likely to be adequate given its low debt levels and lack of any major capex plans. The company does not plan to take on any additional debt in the near future and is expected to fund any future plans with the existing limits and internal accruals.

## Rating sensitivities

**Positive triggers –** The ratings may be upgraded if the firm is able to improve its scale of operations and maintain the debt protection metrics on a sustained basis.

**Negative triggers** – The ratings may be downgraded if its liquidity profile, capital structure or cash accruals weaken on a sustained basis. Specific credit metrics that could lead to a downgrade would be 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 rating is based on the standalone financial profile of the company. |

## About the company

Incorporated in 1995, Rasi Electrodes Limited specialises in manufacturing welding consumables, catering to the requirements of diverse heavy engineering and light engineering industries. The company caters to the need of public sector undertakings, private engineering conglomerates and original equipment manufacturers. The company 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. Rasi Electrodes Limited also has plans to enter the agro-trading business in the near future and the same will be funded through internal accruals.

## Key financial indicators (Audited)

| | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. Crore) | 47.43 | 45.96 |
| PAT (Rs. Crore) | 1.02 | 0.51 |
| OPBDITA/OI (%) | 5.8% | 3.1% |
| | | |
| PAT/OI (%) | 2.2% | 1.1% |
| TOL/TNW (times) | 0.35 | 0.22 |
| Total Debt/OPBDITA (times) | 2.07 | 1.74 |
| Interest Coverage (times) | 4.02 | 3.04 |

*Source: Rasi Electrodes Limited*

## Status of non-cooperation with previous CRA

Crisil, on June 30, 2020, had moved the rating to INC category as the company did not provide the requisite information needed to conduct the rating exercise.

## Any other information: None

## Rating history for last three years

| Instrument | Current Rating (FY2021) | | | | Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|
| | Type | Amount Rated | Amount Outstanding | Rating Nov-13-2020 | FY2020 | FY2019 | FY2018 |
| Long term – FB | Long term | 10.0 | 2.4 | [ICRA]BB+(Stable) | - | - | - |
| Long term - Interchangeable | Long term | (2.0) | | [ICRA]BB+(Stable) | - | - | - |
| Short term - Interchangeable | Short term | (15.0) | | [ICRA]A4+ | - | - | - |

*Note: Amount in Rs. crore*

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://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 |
|---|---|---|---|---|---|---|
| - | Long term – FB | - | - | - | 10.0 | [ICRA]BB+(Stable) |
| - | Long term - Interchangeable | - | - | - | (2.0) | [ICRA]BB+(Stable) |
| - | Short term – Fund based | - | - | - | (9.0) | [ICRA]A4+ |
| - | Short term – Non-Fund based | | | | (6.0) | [ICRA]A4+ |

*Source: Rasi Electrodes Limited*

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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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