

Rishabh Industries

June 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.94 (Reduced from 1.95)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	13.00	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four)	Reaffirmed
Total Facilities	13.94 (Rs. Thirteen Crore and Ninety-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of the Rishabh Industries (RI) factors in the small scale of operations with fluctuating revenues, susceptibility of margins to foreign exchange fluctuation risk, stretched liquidity position, presence in a competitive and fragmented lighting industry segment and constitution as a proprietorship firm limiting financial flexibility.

The ratings, however; continue to derive the comfort from established track record along with an experienced management team, comfortable profit margins, established albeit concentrated customer profile, moderate solvency position and favorable growth prospects for LED products in Indian market.

The covid-I(1st wave) pandemic has tempered down the revenues in FY21 with closure of operations during Q1FY21. Despite resumption of activities thereafter, the order inflow from key clients was sub-par till November 2020 resulting in lower than expected revenues. The majority of the revenue was booked between December 2020- March 2021.

The operations of the manufacturing plant were not interrupted during April 2021 amid covid-II(2nd wave). However, pick up in demand is inconsistent due to intermittent closures of facilities of customers due to manpower issues.

Rating Sensitivities

Positive Factors: Factors that could lead to positive rating action/upgrade:

- Sustained improvement in scale of operations above Rs.40 crore
- Sustained improvement in GCA levels above Rs. 2 crore

Negative Factors: Factors that could lead to negative rating action/downgrade:

- Sustained decline in scale of operations and profitability
- Weakening of debt coverage indicators with total debt to gca beyond 5 years.
- Sustained deterioration in liquidity position, with slow movement of debtors and/or inventory

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations albeit growth in scale of operations

RI has booked the sales of Rs.17.81 crore in FY21(Provisional) as against Rs.31.51 crore in FY20(Audited) indicating decline by 43.48% on y-o-y basis. The decline in revenue was on account of closure of operations during Q1FY21 amid covid-I and subdued revenues till December 2020, despite resumption of activities from July 2020 onwards. The operations of the company have continued during covid-II and the revenue of Rs.2.21 crore has been achieved in April 2021. The small scale of operations limits the firm from the benefits of economics of scale, lowers bargaining power and provides lower financial cushion in surviving any adverse economic scenarios.

Susceptibility of margins to fluctuation in foreign exchange rates

The firm imports raw material mainly from Hong Kong with imports accounting to almost 59.24% of purchases in FY21(P. Y 48.52%), which makes the margins susceptible to foreign exchange rates in absence of hedging policy. The same was reflected by the loss due to currency fluctuation of Rs.1.30 crore in FY20.However, the company has booked foreign exchange gain in FY21, as indicated by the management.

Presence in a competitive and fragmented industry segment

RI operates in the LED lighting segment characterized by high competition due to low entry barriers, high fragmentation and the presence of a large number of players in the organized and unorganized sector. Thus, the entities present in the segment generally have a very low bargaining power vis-à-vis their customers and faced intense competition from other players.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Proprietorship nature of constitution

RI, being a proprietorship concern, is closely held and is subject to limited disclosure norms, it is exposed to the risk of withdrawal of capital as well as long-term existence of business operations under the entity. There are instances of withdrawal from the capital during last three years ended March 31,2021(Provisional).

Key Rating Strengths**Long track record of operations and experienced promoters**

RI has an established track record of over one and half decade in the electronic industry. The firm was initially promoted by Mr Mahendra Kumar Jain and was later reconstituted with Mr Mayur Jain taking over as proprietor and responsibility for the overall operations. Mr Mayur Jain possesses nearly 9 years of experience in the industry. Being in the industry for so long has helped the proprietor to gain adequate acumen about the business which aids in the smooth operations of RI.

Comfortable profit margins

PBILD and PAT margins of the company have shown fluctuating trend and stood between 7-15% and 2-6.50% respectively. The same stood at 14.15% and 6.33% In FY21(provisional) as against 7.82% and 1.66% in FY20(Audited). Despite decline in total operating income, company managed to generate the higher profitability margins than FY20 on account of reduction in raw material costs and control on other expenses. Profitability margins are susceptible to volatility in input material prices and foreign exchange.

Moderate solvency position

The capital structure of the firm improved as on March 31,2021(Provisional) due to repayment of unsecured loans during FY21. The overall gearing stood at 0.69x as on March 31,2021(P.Y.1.64x). Further; with stable profitability on absolute basis coupled with reduction in debt levels, debt coverage indicators of the firm also improved during FY21. The total debt to GCA and interest coverage stood at 4.60x and 1.50 times in FY21 (Provisional) as against 14.69x and 1.86x in FY20 (A) respectively. Higher interest charges during the year led to slight deterioration in interest coverage ratio in FY21.

Established albeit concentrated customer profile

RI has a reputed customer base like Crompton Greaves Consumer Electric Limited and Orient Electric Limited[CARE AA-; Stable/CARE A1+; July 07, 2020]. However, the top 5 customers of the firm contributed more than 50% of the total operating income during last three years ended FY21 (Provisional). Thus, maintaining relationships with these customers will be a critical factor and might impact overall revenues if demand from any one customer declines.

Industry outlook:

LED's (Light emitting diodes) have emerged as a prominent source of lighting during last few years due to their advantages over conventional sources. Covid-19 outbreak, created many challenges for LED lighting industry including supply chain disruptions, slowdown in demand from end user industries and longer lead times amongst others. However, the long-term growth prospects of the market continue to remain healthy due to government policy support, wide application areas of LEDs and shift towards energy efficient technologies.

Liquidity: Stretched

Liquidity position of the firm is stretched with tightly matched accruals to the repayment obligations and elongated operating cycle marked by gross current assets of 280 days in FY21. The average utilization of CC is low at 46.8% for the last 12 months ended March 31,2021 with accumulation of creditors. Any contingent working capital requirement is fulfilled through the infusion of funds from the proprietor and relatives, which provides cushion to the liquidity. Free cash and bank balance stood negligible at Rs.0.03 crore as on March 31,2021. The company had availed the covid-19 assistance loan of of Rs.1.54 crore in line with regulatory package announced by RBI.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

About the Company

RI was established in 2002. Initially the firm was engaged in the manufacturing of CFL (compact fluorescent light) products and PCB (printed circuit boards), however in January 2016, the firm set up a facility for manufacturing of lighting products such as LED tube light, LED tube light frame, LED tube light panel and LED tube lighting kits.

Brief Financials (Rs. crore)	FY20	FY21
	Audited	Provisional
Total operating income	31.51	17.81
PBILDT	2.46	2.52
PAT	0.52	1.13
Overall gearing (times)	1.64	0.69
Interest coverage (times)	1.86	1.5

Status of non-cooperation with previous CRA: CRSIL, vide its press release dated March 24, 2020, placed the ratings assigned to the bank facilities of RI, as the company did not provide the requisite information needed to conduct the rating exercise.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Annexure 3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April 2022	0.94	CARE BB-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	13.00	CARE BB-; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	0.94	CARE BB-; Stable	-	1)CARE BB-; Stable (07-Jul-20)	1)CARE BB-; Stable (05-Jul-19)	1)CARE B+; Stable (22-May-18)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	13.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (07-Jul-20)	1)CARE BB-; Stable / CARE A4 (05-Jul-19)	1)CARE B+; Stable / CARE A4 (22-May-18)

Annexure 3: Covenants of rated instrument/facility: Not applicable

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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