Rishi Laser Limited

August 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating Issuer Rating	0.00	CARE BB+; Stable	Assigned

Details of facilities in Annexure -1

Rationale and key rating drivers

The rating assigned to Rishi Laser Limited (RLL) is constrained on account of its moderate scale of operations as well as profitability in FY24 (FY refers to April 01 to March 31), modest net worth base albeit comfortable capital structure owing to low reliance on debt and stretched liquidity. The ratings also factor in RLL's presence in a competitive and cyclical metal fabrication industry with susceptibility of profitability to volatile raw material price and stabilization risk associated with on-going debt-funded capex.

The rating, however, derives strength from vast experience of RLL's promoters in the metal component industry, established presence of more than three decades, and its reputed albeit moderately concentrated clientele base.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Volume backed growth in total operating income (TOI) to more than Rs.200 crore while maintaining healthy PBILDT margin above 8% on sustained basis
- Improvement in TOL/TNW along with significant increase in net worth base

Negative Factors

- Decline in TOI to less than Rs.100 crore resulting in PAT loss
- Deterioration in capital structure with overall gearing above 1.00 time on sustained basis

Analytical approach: Standalone

Outlook: Stable

A 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity is likely to sustain its operating performance considering the benefits derived from established presence of the company in the industry along with reputed clientele base.

Detailed description of the key rating drivers

Key weaknesses

Moderate scale of operations and profitability

RLL's scale of operations and profitability has historically remained volatile. TOI remained moderate at Rs.140 crore in FY24 as against Rs.134 crore in FY23 exhibiting marginal 5% y-o-y growth with increase in demand from customers. PBILDT margin of the company increased by 214 bps y-o-y owing to decrease in material cost and remained moderate at 8.45% in FY24 [PY: 6.31%]. In line with improved PBILDT margin along with lower interest cost, PAT margin of the company increased by 257 bps y-o-y to 6.23% in FY24 [PY: 3.66%]. In Q1FY25, RLL continued to report moderate TOI of Rs.37 crore [PY: Rs.35 crore] along with PBILDT margin of 8.01%.

Modest net worth base though capital structure and debt coverage indicators remained comfortable owing to low reliance on debt

RLL's overall gearing was comfortable owing to lower reliance on debt at 0.50x as on March 31, 2024 which improved marginally from 0.62x as on March 31, 2023 on account of increase in tangible net worth with accretion of FY24 profits into reserves, though it continued to remain modest at Rs.24 crore as on March 31, 2024 [PY: 15 crore]. However, TOL/TNW of the company remained moderate owing to relatively high creditors outstanding as on March 31, 2024, though it improved in tandem with overall gearing from 2.59x as on March 31, 2023 to 1.77x March 31, 2024. Debt coverage indicators of the company remained comfortable as marked by interest coverage ratio of 5.15x [PY: 2.69x] and total debt to GCA of 1.15x [PY: 1.25x] in FY24.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Stabilization risk associated with on-going debt-funded capex
The company has 70,000 square feet of rented covered space available at Malur, Karnataka. The company is planning to operationalize the said plant by installing new machines worth Rs.10 crore in FY25 which is envisaged to be funded through term loan of Rs.3 crore [sanction pending] and balance through internal accruals. As total project cost remained high at 41% of tangible net worth base of the company as on March 31, 2024, project risk persists. The said capex is envisaged to be completed by FY25 end and commercial production is expected by Q1FY26. Considering expansion nature of project and experienced promoters in metal fabrication industry, project implementation risk seems to be low, however, project stabilization risk persists.

Presence in the competitive and cyclical metal fabrication industry with susceptibility of profitability to volatile raw material price
The Indian metal fabrication industry is characterized as fragmented in nature with few large players and many small and mid-sized companies due to the varied applications of the products. Metal fabrication industry is also cyclical in nature as demand from some of the end user industries (earthmoving machinery, automotive, general Engineering, textile, railways, power plant equipment, telecommunications and instrumentation among others) is directly correlated to the economic growth.
Further, raw materials constitute ~55-60% of cost of sales for the company and the primary raw materials used by RLL are steel and other metals whose prices are volatile in nature, hence, any adverse movement in the raw material prices may affect operating profitability of the company.

Key strengths
Experienced promoter and established track record of operations
Incorporated in 1992, RLL has established operational track record of more than three decades in metal products industry. It is engaged in fabrication of sheet metal components and machine parts and serves customers from diversified end user industries Mr. Harshad Patel is Managing Director of the company, holding extensive experience of more than three and a half decades in metal products industry and associated with the company since its inception. He looks after strategic decision making of the company and he is assisted by a team of qualified senior management who assist in day-to-day operations of the company.

Reputed albeit moderately concentrated clientele base
RLL's customer portfolio includes reputed clients having stringent vendor induction process in place across diversified industries and the company is having long standing relationship with them and gets regular orders. However, customer concentration remained moderate marked by top 10 customers contributed ~75% of its TOI in FY24 [PY: ~79%].

Liquidity: Stretched
RLL's liquidity position remained stretched with recently sanctioned working capital limit of Rs.1 crore and extended credit period availed from suppliers for its working capital management. RLL had outstanding debt from Assets Care and Reconstruction company (ACRE) which was repaid in FY24 pertaining to default in previous years due to heavy losses attributed to slowdown in high dependence earthmoving segment and completion of debt-funded large capex.
RLL reported cash accruals of Rs.10 crore in FY24 as against low scheduled debt repayment obligation of Rs.4 crore in FY25. Also, RLL had liquid funds of Rs.5 crore as on March 31, 2024, while the company reported moderate cash flow from operations (CFO) of Rs.10 crore in FY24.
Average utilization of working capital borrowings was low at ~25% during last three months ended June 2024. Operating cycle of the company remained at negative 1 day [PY: negative 6 days] owing to high creditor days.

Assumptions/Covenants: Not applicable
Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria:
[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Issuer Rating]
[Financial Ratios – Non financial Sector]

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

Incorporated in 1992 by Mr. Harshad Patel and family, Rishi Laser Limited (RLL) is listed on Bombay stock exchange (BSE) and is engaged in fabrication of sheet metal components and machine parts with six manufacturing units located across five states of Inda. It caters to a wide range of industries such as railways, earthmoving equipment, automotive, power plant equipment, telecommunication & instrumentation, textile, general engineering among others.

Brief Financials (₹ crore)	FY23 (A)	FY24 (Pb)	Q1FY25 (UA)
Total operating income	134.08	140.11	37.09
PBILDT	8.46	11.84	2.97
PAT	4.91	8.72	1.63
Overall gearing (times)	0.62	0.50	NA
Interest coverage (times)	2.69	5.15	4.71

A: Audited; Pb: Published results along with schedules; UA: Unaudited; NA: Not available. Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE BB+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE BB+; Stable				

LT: Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated: Not applicable

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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