

Rama Steel Tubes Limited
June 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	40.00	CARE BBB; Negative (Triple B; Outlook: Negative)	Ratings reaffirmed; Outlook revised from 'Stable' to 'Negative'
Long-term/Short-term Bank Facilities	45.00	CARE BBB; Negative/ CARE A3+ (Triple B, Outlook; Negative/ A Three Plus)	Ratings reaffirmed; Outlook revised from 'Stable' to 'Negative'
Total	85.00 (Rs. Eighty five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rama Steel Tubes Ltd (RSTL) continue to into account the ratings continues to drive strength from its experienced and resourceful promoters, RSTL's long track record of operations, established distribution network and diversified customer base. The ratings also factors in the moderate scale of operations and its average financial risk profile marked by moderate capital structure as well as debt coverage indicators. However, the ratings are constrained decline in profitability margins, modest liquidity, susceptibility of margins to volatility in raw material prices and highly competitive nature of industry.

Going forward, the company's ability to improve its operational performance, effectively manage its working capital requirements and maintain its gearing would remain the key rating sensitivities.

Outlook: Negative

The outlook is negative as it is expected that the company's profitability margins will remain subdued and working capital requirements would remain at elevated levels. The outlook may be revised to stable if the company is able to improve its profit margins and rationalize its operating cycle thereby strengthening its liquidity position.

Detailed description of the key rating drivers**Key Rating Strengths**

Experienced & resourceful promoters and long track record of operations: The promoters of the company have an extensive experience of more than three decades in the steel tubes manufacturing and RSTL is into operations for more than four decades. The extensive experience of the promoters and the company's long track record of operations provide the necessary technical expertise and established relationships with various stakeholders for growing its business. Further, the promoters have been infusing funds in the form of unsecured loans and equity which demonstrate their resourcefulness and financial support to the company.

Established distribution network and diversified customer base: The company has more than 350 authorized dealers spread over North, South and West India. Also, the company is exporting its products to over 16 countries with exports contributing around 10-12% of total sales during the year. Further, the company is diversified in terms of customers with top 10 customers constituting around 50% of total sales during the year.

Moderate scale of operations: The consolidated total operating income of the company increased significantly to Rs. 506.79 crore during FY19 (refers to the period April 1 to March 31)) as compared to Rs.381.26 crore in FY18 led by increase in sales from manufacturing as well as trading segment.

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

Average financial risk profile: The overall gearing moderated to 1.04x as on March 31, 2019 as compared to 0.80x as on March 31, 2018 due to higher working capital borrowings as on March 31, 2019. Further, the interest coverage ratio increased from 4.23x in FY18 to 2.04x in FY19 on account of decrease in interest charges.

Key Rating Weaknesses

Decline in profitability margins: The PBILDT margins reduced significantly to 3.77% in FY19 (PY: 7.04%) largely due to fluctuations in the raw material prices, presence in a highly competitive industry and initial stage of operations in subsidiary company. PBILDT margins coupled with higher interest expense resulted in decrease in the PAT margins to 2.56% in FY19 (PY: 3.34%).

Susceptibility of margins to volatility in prices of raw material: The main raw material for RSTL's products is HR steel sheets, the prices of the HR sheets are market linked and determined on a monthly basis, thus exposing the company to the volatility in the prices of raw materials. The raw material cost constitutes around 95% of the total cost of sales. The prices of the HR sheets are market linked and determined on a monthly basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins.

Highly competitive industry: The steel pipes industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types of steel pipes. Although, over the years the industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry

Liquidity

The liquidity profile of the company is modest marked by an elongated operating cycle and higher utilization of working capital limits. An increase in receivables days as on March 31, 2019 coupled with higher inventory holding period resulted in elongation of the operating cycle. The average utilization of the working capital limits also remains high during the year.

Analytical approach: Consolidated. RST International Trading FZE (RSTIT) and Lepakshi Tubes Private Limited (LTPL) are wholly owned subsidiaries of RSTL and are into similar line of business. Due to significant operational and financial linkages among these entities, consolidated approach (RSTL, RSTIT and LTPL) has been considered.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology: Factoring Linkages in Ratings

Rating Methodology-Manufacturing Companies

Rating Methodology - Wholesale Trading

Financial ratios - Non-Financial Sector

About the Company

RSTL was incorporated in 1974 by late Shri. Harbans Lal Bansal and is currently managed by his son Mr. Naresh Kumar Bansal and grandson Mr. Richi Bansal. The company started its commercial operations in 1981 with an installed capacity of 10,000 Metric Tonnes Per Annum (MTPA) for the manufacturing of ERW steel tubes/ pipes in Sahibabad. The company has two manufacturing facilities with one located at Sahibabad in Uttar Pradesh and another in Khopoli in Maharashtra with total installed capacity of 1,32,000 MTPA as on March 31, 2019. The group has combined capacity of 1,68,000 MTPA as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	387.41	506.79
PBILDT	27.49	19.08
PAT	12.72	8.37
Overall gearing (times)	0.80	1.04
Interest coverage (times)	4.23	2.04

A: Audited

Status of non-cooperation with previous CRA: CRISIL vide their PR dated November 5, 2018.

Any other information: Not Applicable

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

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-Cash Credit	-	-	-	40.00	CARE BBB; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	45.00	CARE BBB; Negative / CARE A3+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB; Negative	-	1)CARE BBB; Stable (13-Sep-18)	1)CARE BBB; Stable (30-Oct-17)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	45.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (13-Sep-18)	1)CARE BBB; Stable / CARE A3 (30-Oct-17)	-

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

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Ajay Dhaka

Contact no. - +91-11-45333218

Email ID- ajay.dhaka@careratings.com

Business Development Contact

Ms. Swati Agrawal

Contact no. - +91-11-4533 3200

Email ID- swati.agrawal@careratings.com

About CARE Ratings:

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