Rama Steel Tubes Limited (Revise)

October 30, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	40.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Long-term/ Short-term Bank facilities	45.00	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Assigned**
Total Facilities	**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 Limited (RSTL) derive strength from its experienced and resourceful promoters, RSTL's long track record of operations, established distribution network and diversified customer base. The ratings also factor in consistent growth in company's total operating income and profitability and moderate financial risk profile marked by moderate gearing as well as debt coverage indicators. However, the ratings are constrained by working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices and highly competitive nature of industry.

Going forward, the company's ability to achieve envisaged growth in total income and profits and improve its capital structure would remain the key rating sensitivities.

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: RSTL has over 350 authorized dealers spread over North, South and West India. Also, the company is exporting its products to over 16 countries. Further, the company is diversified in terms of customers with top 10 customers constituting 40% of the total operating income of FY17 (PY: 44%). The diversified customer base and export base mitigates the risk of customer concentration in the operations of the company.

Improvement in operational performance: The total operating income grew by 7% to Rs.261.01 crore in FY17 (PY: Rs.243.28 crore) primarily on account of increase in sales realization per unit. The PBILDT margins increased to 8.10% in FY17 (PY: 6.54%) on account of increase in gross profit. Consequently, the PAT margins also improved to 3.47% in FY17 (PY: 2.48%). As a result of increase in scale of operations coupled with higher profitability, RSTL reported gross cash accruals of Rs.12.28 crore in FY17 increasing from Rs.8.92 crore in FY16.

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

Moderate financial risk profile: The overall gearing improved to 1.30x as on March 31, 2017 (PY: 2.80x) on account of increase in net worth due to funds infusion in the form of equity coupled with accretion of profits and reduction in total debt. The company's debt coverage metrics continued to remain moderate.

Key Rating Weaknesses

Working capital intensive nature of operations: The operations of the company are working capital intensive in nature as reflected by working capital cycle of 76 days as on March 31, 2017 (PY: 57 days). The increase in working capital cycle was largely on account of increase in inventory holding period which increased to 63 days as on March 31, 2017 (PY: 46 days). Working capital needs are further enhanced owing to differential credit period with suppliers and customers as reflected by collection period of 36 days as on March 31, 2017 (PY: 24 days) and creditor period of 23 days as on March 31, 2017 (PY: 14 days). The average fund based working capital utilization of the company stood high at 88% for trailing 12 months ending May 2017 indicating higher reliance on bank finance to meet the working capital requirement.

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 constituted 94% of the total cost of sales for FY17 (PY: 93%). However, the company has been able to pass on the volatility in the raw material prices as reflected by year on year growth in PBILDT 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.

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 has been considered.*

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
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 Kuamr 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 June 30, 2017. The company also exports steel pipes/tubes to countries in Africa, UAE, UK etc. which stood at 11.74% of total sales in FY17 (PY: 13.13%).

RSTL has a wholly owned subsidiary i.e. RSTIT based in Dubai engaged in trading of HR and CR coils. Also, the company is adding manufacturing facility for pipes in another wholly owned subsidiary i.e. LTPL based in Andhra Pradesh with total installed capacity of 36,000 MTPA. LTPL is expected to start commercial operations in Q2FY18.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	243.28	261.01
PBILDT	15.91	21.13

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
PAT	6.02	9.06
Overall gearing (times)	2.80	1.30
Interest coverage (times)	2.57	2.77

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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.

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-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	45.00	CARE BBB-; Stable / 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	45.00	CARE BBB-; Stable / CARE A3	-	-	-	-

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