Rama Steel Tubes Limited

February 20, 2020

Ratings

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities	60.00	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Ratings Reaffirmed; Outlook revised form 'Stable' to 'Negative'**
Long-term/ Short-term Bank facilities	50.00	**CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative / A Three)**	**Ratings Reaffirmed; Outlook revised form 'Stable' to 'Negative'**
Total	**110.00 (Rupees One hundred and ten crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rama Steel Tubes Limited (RSTL) continue to derive strength from its experienced promoters, RSTL's long track record of operations, established distribution network and diversified customer base and moderate gearing. However, the ratings are constrained by decline in operational performance of the company marked by lower profitability margins in FY19 (refers to the period from April 01, 2018 to March 31, 2019) and lower total income as well as margins in 9MFY20 (refers to the period from April 01, 2019 to December 31, 2019). The ratings continue to be constrained by working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices and highly competitive nature of industry.

Rating Sensitivities:

Positive:

- Ability to report total income of Rs.600 crore and PBILDT margin of 5% on sustained basis

Negative:

- Deterioration in overall gearing beyond 1.5x
- Continuation of subdued operational and financial performance

Outlook: Negative

The outlook has been revised to negative on expectation of weaker than envisaged operational and financial performance during FY20 amid subdued performance reported in 9MFY20 attributable to slowdown in the industry. The outlook may be revised to stable in case RSTL reports improvement in sales, profitability margins and cash accruals.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: The promoters of the company have an experience of more than three decades in the steel tubes manufacturing. 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 its business.

Moderate gearing albeit weakening debt metrics: The financial risk profile of the company has moderated marked by overall gearing of 1.23x as on March 31, 2019 (PY: 0.86x) attributable to increased debt and working capital requirement considering increasing size of the business. The PBILDT interest coverage ratio decreased to 2.30x in FY19 (PY: 4.13x) on account of increase in interest charges and decreased margins. Also, the total debt to gross cash accruals increased to 11.40x as on March 31, 2019 (PY: 4.43x) amid higher debt levels and dip in profitability. Further, the interest coverage has reduced significantly to 1.10x during 9MFY20 (PY: 1.92x) due to muted profitability.

Established distribution network and diversified customer base: The Company has an established network of 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 33.79% of the total gross sales in FY19 (PY: 48.46%).

Key Rating Weaknesses

Decline in profitability margins: Although the total operating income of the company increased by 33.58% to Rs.509.20 crore in FY19 (PY: Rs.381.26 crore), the PBILDT margin deteriorated to 4.23% in FY19 (PY: 7.04%) mainly due to increase in price of

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

raw material and competitive prices offered by the company. Consequently, the PAT margins also declined to 1.59% in FY19 (PY: 3.34%). In 9MFY20, the PBILDT margin reported was 2.98% as compared to 3.97% in 9MFY19 while total income also declined to Rs.271.05 crore (PY: Rs.369.94 crore).

Working capital intensive operations: The operations of the company are working capital intensive in nature as reflected by working capital cycle of 60 days as on March 31, 2019 (PY: 67 days). The improvement in working capital cycle was largely on account of decrease in inventory holding period. The credit period availed from suppliers stood at 9 days as on March 31, 2019 (PY: 10 days).

Susceptibility of margins to volatility in prices of raw material: RSTL has entered into an MOU with SAIL for the supply of HR coils, the main raw material for RSTL's products. However, the prices are market linked, exposing the company to the volatility in the prices of raw materials.

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. Therefore, the margins continue to be under pressure due to fragmentation of the industry.

Liquidity: Adequate
The liquidity profile of the company is marked by gross cash accruals of Rs.2.39 crore as on December 31, 2019 against loan repayment obligations of ~Rs.0.80 crore each quarter and free cash and bank balance of Rs.1.05 crore as on December 31, 2019. The current ratio stood at 1.54x as on March 31, 2019 (PY: 1.77x) and average utilization of fund based limits stood at ~77% in past 12 months ended January 31, 2020. Capital expenditure pertaining to capacity expansion is funded from term loans.

Analytical approach: Consolidated
RST International Trading FZE and Lepakshi Tubes Private Limited 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 and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
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 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 a total production capacity of 1,68,000 MTPA as on March 31, 2019.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	381.26	509.20
PBILDT	26.84	21.52
PAT	12.72	8.09
Overall gearing (times)	0.86	1.23
Interest coverage (times)	4.13	2.30

A: Audited
Status of non-cooperation with previous CRA: NA

Any other information: NA

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	-	-	-	60.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	50.00	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	60.00	CARE BBB-; Negative	1)CARE BBB-; Stable (07-Oct-19) 2)CARE BBB; Negative (06-Jun-19)	1)CARE BBB; Stable (13-Sep-18)	1)CARE BBB-; Stable (30-Oct-17)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE BBB-; Negative / CARE A3	1)CARE BBB-; Stable / CARE A3 (07-Oct-19) 2)CARE BBB; Negative / CARE A3+ (06-Jun-19)	1)CARE BBB; Stable / CARE A3+ (13-Sep-18)	1)CARE BBB-; Stable / CARE A3 (30-Oct-17)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: None

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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