Rama Steel Tubes Limited

November 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	-	-	Revised to CARE BB+; Stable / CARE A4+ (Double B Plus / A Four Plus) from CARE BBB-; Negative / CARE A3 (Triple B Minus ; Outlook: Negative / A Three) and Withdrawn
Long Term Bank Facilities	-	-	Revised to CARE BB+; Stable (Double B Plus) from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) and Withdrawn
Total Bank Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has revised the ratings from 'CARE BBB-; Negative/ CARE A3' [Triple B Minus; Outlook: Negative/ A Three] to 'CARE BB+; Stable/ CARE A4+' [Double B plus; Outlook: Stable/ A Four Plus] and simultaneously withdrawn the ratings assigned to the bank facilities of Rama Steel Tubes Limited (RSTL) with immediate effect. The above action has been taken at the request of Rama Steel Tubes Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE. The ratings have been revised on account of declining operational performance.

The revision in the ratings takes into account subdued operational performance of the company and resultant weakening of its financial risk profile as reflected in deterioration in debt coverage metrics. The ratings are further constraint by elongating operating cycle, susceptibility of margins due to the volatility in raw material prices and highly competitive nature of industry. However, the ratings derived strength from eexperienced promoters and long track record of operations, established distribution network and diversified customer base and moderate capital structure.

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.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in profitability margins: Although the total operating income of the company decreased by 29.45% to Rs.359.50 crore in FY20 (refers to the period from April 1 to March 31) (PY: Rs.509.20 crore), the PBILDT margin slightly improved to 4.27% in FY20 (PY: 4.23%) mainly due to reduced cost of raw material consumed. However, the PAT margin declined significantly to 0.32% in FY20 (PY: 1.59%). The margins further declined in H1FY21 (refers to the period from April 1 to September 30) although it improved on yoy basis amid recovery in demand after lifting of lockdown.

Working capital intensive operation: The operations of the company are working capital intensive in nature as reflected by working capital cycle of 85 days as on March 31, 2020 (PY: 60 days). The deterioration in working capital cycle was largely on account of delay in liquidation of stock at the dealer's end as the average collection period increased drastically and stood at 70 days (PY: 37 days). The credit period availed from suppliers also increased and stood at 41 days as on March 31, 2020 (PY: 9 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

Key Rating Strengths

Experienced promoters and long track record of operation: 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

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

record of operations provide the necessary technical expertise and established relationships with various stakeholders for its business.

Moderate capital structure albeit weakening debt metrics: The overall gearing of the company slightly improved to 1.21x as on March 31, 2020 as compared to 1.23x as on March 31, 2019 attributable to decrease in working capital borrowing of the company. The total debt to GCA deteriorated on account of decrease in GCA to 19.23x in FY20 from 11.40x in FY19. Further, the PBILDT interest coverage ratio moderated to 1.59x in FY20 from 2.30x in FY19.

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%).

Prospects:
The prospects for steel pipe industry are expected to improve on the back of revival of infrastructure projects and investment sentiment. Also the increase of government spending on infrastructure projects, affordable housing, smart city development shall boost the demand for steel pipes which augurs well for the company. The Government is focusing on projects like increasing the share of gas in energy mix, City Gas Distribution network, improved focus on domestic water segment, allocation in 'Nal se Jal' scheme etc. will further boost the growth of both its segments. With the unlocking of the economy post lockdown, India is expected to become a preferred location for global manufacturing in medium and long term, which shall further make the company more competitive considering its strong brand presence, PAN India operations and extensive dealer network mainly in rural and semi-urban areas. The domestic ERW Steel pipes demand is expected to touch 10mt by 2022 with and approximate market size of around Rs. 600 billion. The demand will largely be driven by water transportation, oil and gas, fire-fighting, construction, infrastructure and furniture segment among others.

Liquidity: Adequate
The consolidated operating cycle of the company elongated and stood at 85 days as on March 31, 2020 (PY: 60 days) due to higher inventory holding period and higher collection days. The current ratio stood moderated at 1.30x as on March 31, 2020 (PY: 1.54x). The average utilization of working capital stood high at around 89% during the 12 months trailing ended July, 2020. The unutilised limits provide a liquidity cushion to the company in case of cash flow mismatches. RSTL had availed moratorium on its interest payments for working capital borrowings for the months of April-2020 and May-2020.

Applicable Criteria
Policy on Withdrawal of ratings
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: Consolidation
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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	509.20	359.50
PBILDT	21.52	15.36
PAT	8.09	1.16
Overall Gearing (times)	1.23	1.21
Interest coverage (times)	2.30	1.59

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 instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in 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-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB-; Negative (20-Feb-20) 2)CARE BBB-; Stable (07-Oct-19) 3)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	-	-	-	1)CARE BBB-; Negative / CARE A3 (20-Feb-20) 2)CARE BBB-; Stable / CARE A3 (07-Oct-19) 3)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 instrument / facilities – None

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

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

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