

**Rama Steel Tubes Limited**  
**October 07, 2019**

**Ratings**

Facility	Amount (Rs. crore)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank facilities	60.00 (enhanced from 40.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Long-term/ Short-term Bank facilities	50.00 (enhanced from 45.00)	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BBB; Negative/ CARE A3+ (Triple B; Outlook: Negative/ A Three Plus)
<b>Total</b>	<b>110.00</b> <b>(Rupees One hundred and ten crore only)</b>		

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The revision in the ratings assigned to the bank facilities of Rama Steel Tubes Limited (RSTL) take into account decline in operational performance of the company marked by lower profitability margins in FY19 and lower total income as well as margins in Q1FY20 thereby resulting in weakening of debt coverage indicators. 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. However, the ratings derive strength from its experienced promoters, RSTL's long track record of operations, established distribution network and diversified customer base and moderate gearing.*

*Going forward, the company's ability to ramp up the operations from expanded capacities and report envisaged total income and profitability and maintain a moderate capital structure will remain the key rating sensitivities.*

**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.

**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

<sup>1</sup>Complete definition of the ratings assigned is available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

due to increase in price of raw material and competitive prices offered by the company. Consequently, the PAT margins also declined to 1.59% in FY19 (PY: 3.34%). In Q1FY20, the PBILDT margin reported was 4.68% as compared to 4.96% in Q1FY19 while total income also declined to Rs.100.65 crore (PY: 125.88 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.9.42 crore as on March 31, 2019 (PY: Rs.15.23 crore) against loan repayment obligations of Rs.3.18 crore and free cash and bank balance of Rs.0.64 crore as on March 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 ~85% in past 12 months ended July 31, 2019.

#### 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:** CRISIL vide PR dated July 26, 2019

**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-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	50.00	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 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-; Stable	1)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-; Stable / CARE A3	1)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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Contact us****Media Contact**

Name-Mr. Mradul Mishra

Contact no. +91-22-6837 4424

Email ID [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)**Analyst Contact**

Name: Mr. Ajay Dhaka

Tel: 011-45333218

Email Address: [ajay.dhaka@careratings.com](mailto:ajay.dhaka@careratings.com)**Relationship Contact**

Name: Swati Agrawal

Contact no. : 011-45333200

Email ID: [swati.agrawal@careratings.com](mailto:swati.agrawal@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.

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**