

Rating Rationale

Rama Steel Tubes Ltd.

Brickwork Ratings assigns the ratings for the Bank Loan Facilities amounting to ₹ 120.00 Crs of Rama Steel Tubes Ltd.('RSTL' or 'The Company')

Facility**	Present Amount Rated (₹ Crs)	Tenure	Present Ratings*
Fund based	70.00	Long Term	BWR BBB- Stable
Non Fund Based	50.00	Short Term	BWR A3
Total	120.00	INR One Hundred Twenty Crores Only	

** Details of facilities given in Annexure I.

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating Action/Outlook:

BWR has assigned a long term rating of BWR BBB- (Stable) and short term rating of BWR A3 to bank loan facilities of Rama Steel Tubes Ltd (RSTL).

The rating factors in the experience of the promoter in business along with the company's established track record of operations, diversified product portfolio and geographical presence, funding support from the promoters and moderate financial risk profile during FY20.

However, the rating is constrained by decline in profitability margins due to higher proportion of trading revenues, susceptibility to cyclical and fluctuation in raw material prices and intense competition in the industry.

The outlook is Stable as the company has been able to sustain the revenues from business operations in FY20 and H1FY21, and its ongoing capacity expansion to add new product range coupled with long standing relationships with customers and suppliers provide revenue visibility in the medium term.

BWR has principally relied upon the audited financial results of RSTL upto 31st March 2020, H1FY21 provisionals and projected financials FY21, FY22 and publicly available information and information/ clarifications provided by the company's management.

Ongoing Expansion: The company is doing capacity expansion at two plants viz. Khopoli, Maharashtra and Anantapur, Andhra Pradesh. It has also started upgradation of old machines with new technology at Sahibabad, Uttar Pradesh plant. The Khopoli plant expansion is funded

through the term loan of ₹ 10 Crs from Canara bank and internal accruals. For other plants expansion/upgradation is done through internal accruals. As a result of said expansion plan Khopoli, Maharashtra plant capacity will increase from 72,000 Metric tonne per annum (MTPA) to 1,32,000 MTPA and Anantapur, Andhra Pradesh plant capacity will increase from 36,000 MTPA to 72,000 MTPA. These capacity expansions/upgradation are currently under implementation and are expected to be completed by December 2020. The total capacity will increase from 1,68,000 MTPA to 2,64,000 MTPA leading to efficiencies from larger scale of operations. BWR notes that RSTL is undertaking expansion capex despite low current capacity utilisation (average utilisation in FY20:42.53%), to be able to manufacture products of different dimensions and specifications.

Credit Strengths

- **Established track record of operations and experienced management:** The promoters of the company have an extensive experience of more than three decades in the steel tubes manufacturing. RSTL has a long track record of operations and extensive experience of the promoters provide the requisite technical expertise and established relationships with various stakeholders for its business. Further they are assisted by a team of experienced professionals.
- **Funding support from promoters:** RSTL also benefits from continuous funding support provided by the promoters by way of unsecured loans of INR 3.21 Crs in Sep 2020 to meet the working capital requirements and capacity expansion plans.
- **Diversified portfolio and geographical presence:** The company manufactures and sells black pipes and tubes, galvanised pipes and tubes and poles. The products manufactured by the company find end use in real estate, defence, telecom, irrigation and infrastructure. The company has an established network of authorized dealers spread over North, South and West India. Also, the company is exporting its products to countries like Dubai, Ethiopia, Kenya, Ghana, Germany and UK. The company caters to a wide range of industries such as infrastructure, irrigation and real estate among others.
- **Moderate financial risk profile:** Financial risk profile is moderate reflected by moderate scale of operations, comfortable network and adequate gearing and debt protection metrics. Gearing (analysed) improved to 0.89x in FY20 from 0.92x in FY19. Debt coverage indicators (interest service coverage ratio and debt service coverage ratio) were adequate in FY20 which stood at 1.19x and 1.07x respectively in FY20. Tangible networth (analysed) stood at ₹ 90.73 Crs in FY20.

Credit Weaknesses

- **Decline in revenue and profitability margins:** Total operating income (TOI) declined by ~29.96% to ₹ 353.23 Crs in FY20 from ₹ 504.33 Crs in FY19 mainly due to Covid 19 impact which was seen in early January 2020, fluctuations in raw material prices in FY20 and production was halted in Mumbai plant. In H1FY21 it achieved a TOI of ₹ 177.35 Crs with a PAT of ₹ 1.53 Crs. Operating profit margins declined to 3.24% in

FY20 from 3.50% in FY19. PAT margins also declined to 0.33% in FY20 from 1.66% in FY19. However, in H1FY21 the operating margins and PAT margins improved to 3.92% and 0.86% respectively.

- **Susceptibility to cyclicality and fluctuation in raw material prices:** The profitability is vulnerable to fluctuations in the prices of raw materials as the latter constitutes ~80% of the company's operating expenses. Further the performance of the company is linked to the steel industry, with cyclical changes in demand and price volatility. The demand for steel products depends on the growth of primary end user segments such as infrastructure, irrigation and real estate. Any slowdown may in turn adversely affect the demand for steel products over the medium term.
- **Intense competition in the industry:** The steel industry is highly fragmented with the presence of both organized and unorganized players in the downstream segment providing similar products. Hence, the company faces competition from regional players leading to intense competition and pricing pressures, which in turn affect the profitability margins of the company. Nonetheless, RSTL has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers and gradual adoption of latest technology.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below.

BWR has analysed RSTL's credit profile by considering consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries and common management. The entities considered in the consolidated financial statements are RST International Trading FZE and Lepakshi Tubes Private Limited. They are wholly owned subsidiaries of RSTL and are into a similar line of business.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, in case of improvement in operating income, profitability margins and debt protection metrics and timely completion and start of ongoing capacity expansion.

Negative: BWR may revise the rating downward, in case substantial reduction in operating income, profitability margins and deterioration in debt protection metrics thereby impacting the credit profile of the company.

Liquidity Position (Adequate)

Against the current portion of long term debt of ₹ 3.42 Crs in FY21, the company projects to generate cash accruals of ₹13.38 Crs in FY21, thereby indicating a comfortable liquidity position for repayment of debt obligations. The average utilisation of working capital bank limits of the company stood around 80.50% during the last 12 months ending 31st Oct 2020.

About RSTL:

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 a total production capacity of 1,68,000 MTPA as on September 30, 2020. He is supported by other directors who have extensive experience in steel pipes business as well as a qualified and well experienced management team. It is engaged in manufacturing of Black Pipes and Tubes, Galvanised pipes and tubes and poles. It is also involved in trading of steel pipes through its subsidiary RST International Trading FZE. It has three manufacturing facilities at Sahibabad, UP with installed capacity of 60,000 MTPA, Khopoli, Maharashtra with installed capacity of 72,000 MTPA and Anantapur, Andhra Pradesh with installed capacity of 36,000 MTPA. The company products find application in various industries such as real estate, defence, telecom, irrigation and infrastructure. It is listed on BSE and NSE. The promoter group holds 61.77% equity stake in the company and remaining 38.23% is with the public.

Key Financial Indicators (Consolidated)

Key Financials			
	Units	31/Mar/2019	31/Mar/2020
Result Type		Audited	Audited
Total Operating Income	₹ Cr	504.33	353.23
OPBDIT	₹ Cr	17.66	11.46
PAT	₹ Cr	8.37	1.16
Tangible Net Worth (Analysed)	₹ Cr	92.08	90.73
Debt/TNW (Analysed)	Times	0.92	0.89
Current Ratio	Times	1.61	1.34

Key Covenants of the Instrument/Facility Rated: Not Applicable

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

S.No	Name of Instrument	Current Rating (2020)				Rating History		
		Type	Tenure	Amount (In Crs)	Rating	2019	2018	2017
1	Bank Loan	Fund Based	Long Term	70.00	BWR BBB-Stable	NA	NA	NA
		Non Fund Based	Short Term	50.00	BWR A3	NA	NA	NA
Total				120.00	INR One Hundred Twenty Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria - Manufacturing Sector Entities**

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Rama Steel Tubes Ltd
ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Canara Bank	CC	15.00	-	15.00
		Term Loan	10.00	-	10.00
		ILC/FLC	-	8.00	8.00
		BG	-	7.00	7.00
2	Axis Bank	CC	20.00	-	20.00
		BG	-	11.00	11.00
		ILC/FLC	-	14.00	14.00
3	HDFC Bank	CC	25.00	-	25.00
		BG	-	10.00	10.00
TOTAL					120.00

Total: INR One Hundred Twenty Crores Only



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DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.