

Rating Rationale

Brickwork Ratings assigns 'BWR BB' & 'BWR A4' for the Bank Credit Facilities amounting to ₹ 72.09 Cr of Ratnadeep Metal and Tubes Ltd

Brickwork Ratings (BWR) has assigned the following **Ratings**¹ for the long-term Bank Credit facilities of ₹ 36.09 Cr and Short term Bank Credit facilities of ₹ 36 Cr of Ratnadeep Metal & Tubes Limited ("RMTL" or "the Company").

Facility	Limits (₹ Cr)	Tenure	Rating
<u>Fund Based</u>			
TL	5.92	Long Term	BWR BB (BWR Double B) Outlook:Stable
CC*	30.17		
<u>Non Fund Based</u>			
LC#	31.00	Short Term	BWR A4 (BWR A Four)
BG	5.00		
Total	72.09 (INR Seventy Two Crores & Nine Lakhs only)		

*Includes a sublimit of Rs.20Cr for working capital demand loan , export packing credit/foreign packing credit/foreign bill discounting/foreign bill purchase for Rs8Cr # includes a sub limit of Rs.31 Cr for Buyers Credit /foreign bill discounting/foreign bill purchase.

BWR has principally relied upon the audited financial results of RMTL up to FY 13, and further projected financials, publicly available information and information/clarification provided by the Company management.

The ratings continue to be constrained by the moderate financial risk profile as indicated by working capital intensive nature of operations, moderate debt protection metrics and high overall gearing. The ratings also take into account the vulnerability of margins to volatile raw material prices. The ratings, however, favourably factor in the experience of the promoters, long track record of operations and diversified product range catering to the wide spectrum of the industries.

Background

RMTL, incorporated in 2002, is promoted by Mr. Bharat Sanghavi and Mr. Jayant Jain. The company is engaged in the manufacturing of diverse range of stainless tubes and pipes (SS tubes), welded tubes, carbon steel (CS) seamless tubes and alloy steel seamless tubes.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

These SS tubes find application in many industries, including oil & gas, power, fertilizers, heat-exchangers, pharmaceuticals, chemicals, water treatment, dairy, sugar & food processing, etc. The company has two manufacturing facilities located at Rajpur and Chhatral, Gujarat, and the manufacturing process complies with ISO 9001:2008 quality standards.

Financial Performance

The financial risk profile of RMTL is witnessed by relatively low profitability, moderate debt protection metrics and high overall gearing. Total income of the company stood at Rs.111.75 Cr in FY 13 increased by 13% Y-o-Y basis, on the back of higher contribution from seamless tube segment reflecting the healthy demand of its product. Despite of stressed economic environment RMTL has maintained the EBITDA margins in the range of 10-12 % since past four years. Operating margins of the company improved by 151 bps to 11.98% in FY 13 which reflects the firm's ability to maintain margins in different business cycles. Further, the net margins improved on the back of decline in cost of material. The overall gearing of RMTL declined to 1.81 x in FY 13 (1.58 times as on March 31, 2012) on account of its incremental working capital requirements to support the growth momentum and it is expected to be on same line in medium term .The debt protection metrics as reflected by interest coverage and Net cash accruals to total debt continues to stay moderate at 1.72x (1.85x in FY12) and 0.11 times as on March 31, 2013 (0.13 times as on March 31, 2012). Operating cycle of the company elongated to 138 days in FY 13 (119 days in FY12) mainly due to delayed payments from customer and higher inventory holdings. RMTL uses non-fund based LC/BG facility for purchasing its raw materials. Company's working capital utilization continues to remain high as evident from its average bank lines utilization for past trailing 12 months ended as of March 2013 stood at 98%. As per FY 14 provisional financial the company has cloaked Rs.121 Cr turnover. BWR expects the financial flexibility of RMTL will remain under pressure due to working capital intensive operations over the medium term.

Rating Outlook

Going forward, the ability of RMTL to scale up its operations in a highly competitive scenario and improve its overall financial risk profile while mitigating the raw material price fluctuation would be the key rating sensitivities. The rating may undergone a change, if the company's liquidity stretches further

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