



Rama Steel Tubes Ltd.

AN ISO 9001 : 2015 Co. I CIN : L27201DL1974PLC007114

Manufacturers & Exporters : ERW Steel Tubes, Black, Galvanised

Date - February 24, 2020

The Manager – Listing National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 Symbol: RAMASTEEL	The Secretary BSE Limited, Corporate Relationship Dept., P. J. Towers, Dalal Street, Mumbai - 400 001. Scrip Code: 539309
---	---

Dear Sir/Madam,

Sub: Intimation regarding credit ratings accorded to the company

Pursuant to Regulations 30 and other relevant regulations, if any, of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that the Company has been assigned following credit ratings by CARE Ratings Limited:-

Facilities	Amount (Rs. crore)	Rating	Rating Action	Upgraded/ Reaffirmed/ Downgraded
Long term Bank Facilities	60.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Rating Reaffirmed; Outlook revised from 'Stable' to 'Negative'	Reaffirmed
Long-term/Short- term Bank Facilities	50.00	CARE BBB-; Negative/ CARE A3 (Triple B Minus; Outlook: Negative/ A Three)	Rating Reaffirmed; Outlook revised from 'Stable' to 'Negative'	Reaffirmed
Total	110.00 (Rs. One hundred and ten crore only)			

The detailed press release dated February 20, 2020 of CARE Ratings Limited is enclosed for reference. This is for your kind information and record.

For RAMA STEEL TUBES LIMITED


(KAPIL DATTA)
COMPANY SECRETARY &
COMPLIANCE OFFICER



Encl.: As above

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

¹Complete 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.

Contact us

Media Contact

Name-Mr. Mradul Mishra
Contact no. +91-22-6837 4424
Email ID mradul.mishra@careratings.com

Analyst Contact

Name: Mr. Ajay Dhaka
Tel: 011-4533218
Email Address: ajay.dhaka@careratings.com

Relationship Contact

Name: Swati Agrawal
Contact no. : 011-4533200
Email ID: 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**