July 29, 2024

Rama Cylinders Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Cash credit	23.75	20.00	[ICRA]A(Stable); reaffirmed
Short term – Non-fund based - Others	150.00	110.00	[ICRA]A2+; reaffirmed
Total	**173.75**	**130.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the established track record and the favourable market position of Rama Cylinders Private Limited (RCPL) in the domestic high-pressure seamless steel cylinder manufacturing segment. RCPL has a healthy market share with a diversified customer mix comprising reputed industry players, including key auto original equipment manufacturers (OEMs) and city gas distribution (CGD) entities. The ratings continue to take into account RCPL's comfortable capital structure and debt coverage indicators, given its healthy cash accruals and limited reliance on external borrowings.

The Government of India's thrust on ramping up the country's CNG infrastructure would also support the demand prospects of gas cylinders and cascades. Moreover, the increasing offtake by CGD entities and the growing acceptance of CNG vehicles in the country as a more cost-effective option are expected to drive demand for the company's products. However, despite the cost competitiveness of CNG, the growing acceptability of electric vehicles poses a risk to the demand for CNG vehicles. Nevertheless, the proportion of CNG vehicles, EVs and hybrids is likely to materially increase, and the two technologies are expected to co-exist in the near to medium term. The ratings further consider the high entry barriers in the industry on account of its regulated nature, stringent quality standards and the highly capital-intensive nature of operations.

ICRA notes that the company is currently undertaking a capex of ~Rs. 50 crore of which ~Rs.40 crore has been spent as on March 31, 2024 and ~Rs. 10 crore is to be spent in FY2025, primarily to expand its manufacturing capacity by 10,000 units per month, which is expected to commercialise from Q4 FY2025. The capex is being funded entirely through internal accruals and promoter loan. The expanded capacity would allow the company to further grow its scale to support the healthy demand expected from OEMs and CGD entities in the near term. The improved scale of operations would also result in healthy cash accruals, while maintaining a comfortable capital structure and debt coverage metrics.

The ratings are, however, constrained by the exposure of the company's profitability to the variations in foreign exchange rates and prices of key raw materials (i.e. seamless steel tubes). Also, the company's operations remain working capital intensive due to the high inventory levels that the management maintains. Further, RCPL's performance remains susceptible to the timely availability of raw materials as a large part of these are imported, though the high amount of inventory maintained by the company mitigates the risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that RCPL is likely to sustain its operating metrics with an increase in scale with the commissioning of the enhanced capacities while also maintaining its healthy debt coverage metrics.

Key rating drivers and their description

Credit strengths

Established presence of the company, reputed customer profile and diversified customer mix- RCPL is one of the leading players in the domestic market with a healthy market share and enjoys established relationships with reputed market players. The company has been involved in the manufacturing of high-pressure seamless steel cylinders for nearly two decades with an installed capacity of 5,40,000 units per annum (anticipated to be increased to 6,60,000 units per annum from Q4 FY2025). The long-standing presence of the company has enabled it to establish relationship with key domestic automobile OEMs such as Bajaj Auto Limited, Tata Motors Limited, Eicher Motors Limited, etc. apart from the local retro fitment sector in India. The company also supplies CNG storage cascades to CGD players, including Indraprastha Gas Limited (IGL), Hindustan Petroleum Corporation Limited (HPCL), GAIL India Limited, among others. The company's customer concentration risks are moderate with the top five customers contributing 25-45% to the overall sales in recent years.

Healthy demand prospects of CNG likely to support demand- The Government's measures to control gas prices and the regulatory push to expand the CNG network will support a healthy demand for CNG in the near to medium term and improve the penetration of CNG across the country. Further, the favourable economics of using CNG vis-à-vis alternative fuels has increased the popularity of the CNG variants, thereby fuelling the demand from leading OEMs for increasing the coverage of CNG across their product portfolio.

Strong financial profile characterised by comfortable capital structure and healthy coverage indicators – The company's capital structure remained robust with total debt of Rs. 12 crore as on March 31, 2024, of which Rs. 10 crore is debt from promoters and Rs. 2 crore is bank borrowings. The TD/OPBDITA, interest coverage and NCA/TD remained comfortable at 0.3 times, 11.9 times and 267%, respectively, in FY2024. The company is currently undertaking capacity expansion funded through internal accruals and promoter debt. RCPL is expected to generate stable cash flows in the coming years with a scale-up in its overall business, thus keeping the company's reliance on debt low and its capitalisation and coverage metrics are likely to remain comfortable.

High entry barriers in the high-pressure seamless-steel cylinder market – The entry barriers in the high-pressure seamless steel cylinder market are high owing to the stringent regulations prescribed by the Petroleum and Explosive Safety Organisation (PESO) that require extensive testing and clearance at multiple levels. RCPL, along with other players in the industry, maintains high levels of raw material inventory which makes the industry capital-intensive, further enhancing the entry barriers.

Credit challenges

Working capital-intensive operations – The company generally offers a credit period of 30-45 days to some of its customers, including auto OEMs, while sales against advances are made to others. RCPL maintains a high inventory on account of i) imported raw material (seamless steel tubes) having a lead of ~4 months, and ii) the requirement of around 1-month inventory of finished goods due to different sizes and specifications. The imports made by the company are generally backed by letters of credit with usance period of up to 90 days and only 5-10% of the order value is given as advance against these imports. ICRA notes that the operations of the company are working capital-intensive largely on account of the longer inventory holding period, which remains high at 245 days as on March 31, 2024. However, the advances from customers and the credit period offered by the suppliers help the company manage its working capital intensity to an extent.

Profitability exposed to adverse fluctuations in foreign currency – The profitability is vulnerable to forex rate fluctuations as a major portion of the company's raw material purchases is through imports. The exports provide a natural hedge to the company to some extent. RCPL also hedges 50% of its net forex exposure through forward contracts with forex cover also taken for additional risk on a need basis. The company may hedge up to 100% of its forex exposure as per the requirements in anticipation of the currency fluctuation. However, it continues to be exposed to the forex rate movements to some extent.

Operations exposed to risks of timely availability of key raw material and fluctuations in its prices – The primary raw material for the company is seamless steel tubes, which form 50-55% of the total cost of the product. RCPL, like other players in the domestic industry, imports its main raw material i.e., seamless tubes, from China, which involves long lead times of several months. The operations, therefore, remain susceptible to their timely availability and the fluctuation in prices of seamless tubes. However, the company maintains an inventory of four-five months for seamless tubes, thereby mitigating the uncertainty related to their timely availability to some extent.

Demand from auto OEMs susceptible to better cost economics of using other fuels and increased penetration of electric vehicles- The company derives nearly one-third of its total revenues from the supply of cylinders to auto OEMs. However, the demand from these auto OEMs remains susceptible to the cost savings associated with using CNG vis-à-vis other fuels and can be impacted in case of a sharp rise in gas prices again. Further, the demand for CNG cylinders is likely to be impacted with the increased penetration of electric vehicles, backed by the Government's push to the increased usage of EVs through several policies and subsidies. However, the two technologies are expected to co-exist in the near future due to multiple limitations associated with using electric vehicles such as availability of charging network, swapping infrastructure and operational savings against other fuels.

Liquidity position: Adequate

The company has adequate liquidity with expected healthy cash flow from operations, supported by free cash and cash equivalents of Rs. 5 crore as on March 31, 2024. The company's utilisation of bank limits has remained minimal; however, the utilisation of non-fund based limits has been around 51%, given the nature of the contracts. The company has capex plans of nearly Rs. 10 crore in the current fiscal to be funded through internal accruals. Further, the company has nil debt servicing obligations, further supporting its liquidity position.

Rating sensitivities

Positive factors – A significant increase in the company's scale and profitability while maintaining a healthy capital structure could lead to an upgrade.

Negative factors – Negative pressure on the ratings could emerge if the company undertakes a sizeable debt-funded capital expenditure or if there is a stretch in the working capital cycle. A further reduction in the operating margins and cash accruals, driven by the adverse movement of raw material prices, and the inability of the company to pass on the impact to end customers may also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Rama Cylinders Private Limited (RCPL), incorporated in 2004, is promoted by Mr. Vashu J. Ramsinghani and his son Mr. Amit V. Ramsinghani. RCPL is engaged in the production of high-pressure seamless steel cylinders and allied products. It has two manufacturing facilities, both in Gujarat, one at Bhimasar with an annual production capacity of 360,000 units and the other at Kandla SEZ with an annual production capacity of 180,000 units. The company's equity is largely held by the promoter and promoter group (75%), while the remaining 25% of the equity is held by private equity firms.

Key financial indicators (audited)

Rama Cylinders Private Limited (Standalone)	FY2023	FY2024*
Operating income	395.9	365.0
PAT	31.4	24.0
OPBDIT/OI	11.5%	11.4%
PAT/OI	7.9%	6.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.7	0.3
Interest coverage (times)	10.1	11.9

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 29, 2024	April 18, 2023	July 28, 2022	May 07, 2021
1	Fund-based – Cash credit	Long term	20.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-fund based - others	Short term	110.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Non-fund based – Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-Based – Cash Credit**	NA	NA	NA	20.00	[ICRA]A(Stable)
NA	**Non-Fund Based - Others**	NA	NA	NA	110.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - NA

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545322
Prashant.vasisht@icraindia.com

Kushal Kumar B
+91 40 6939 6408
kushal.kumar@icraindia.com

Arvind Srinivasan
+91 44 4596 4323
arvind.srinivasan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches