

March 21, 2025

## Rama Steel Tubes Limited: Ratings downgraded to [ICRA]BBB- (Stable)/ [ICRA]A3

### Summary of rating action

| Instrument*                                  | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action  |
|--|--------------------------------------|-------------------------------------|--|
| Long-term Fund-based – Cash Credit           | 125.00                               | 80.00                               | [ICRA]BBB- (Stable); rating downgraded from [ICRA]BBB (Stable) |
| Short-term – Non-Fund based - ILC/FLC and BG | 60.00                                | 30.00                               | [ICRA]A3; rating downgraded from [ICRA]A3+                     |
| <b>Total</b>                                 | <b>185.00</b>                        | <b>110.00</b>                       |  |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings revision factors in the weaker than expected performance of Rama Steel Tubes Limited (RSTL) in FY2025, with operating margins (OPM) of ~2.7% in 9M FY2025 compared to 5.7% reported in FY2024 due to inventory losses arising from a significant correction in steel prices. The performance was adversely impacted in Q2 FY2025, owing to inventory losses. While the OPM improved to 3.1% in Q3 FY2025, it was due to profits from the trading segment and the profits from the manufacturing segment continue to be low. Consequently, the full year OPM for FY2025 is estimated to be ~3.1%, resulting in deterioration in the debt coverage indicators of the company. In 9M FY2025, the interest coverage ratio (OPBDITA/Interest & Finance charges) declined to 2.4 times from 2.8 times in FY2024.

ICRA also notes the significant increase in the advance to suppliers in FY2024 and 9M FY2025, resulting in an increase in working capital intensity (net working capital/OI) to 31-32% in FY2024 and 9M FY2025 from 21-22% in FY2022 and FY2023. Moreover, the fund-based limits of the company have been reduced to Rs 80 crore from Rs. 125 crore earlier, which reduces the liquidity buffer available. The improvement in the margins along with improvement in debt coverage indicators and liquidity would continue to remain the key rating monitorables for the company, going forward.

The ratings continue to favourably factor in the experienced management of RSTL and its long track record of operations in the steel pipes industry. The ratings also consider its diversified and strategically located manufacturing facilities, resulting in savings in logistics costs and established relations with key customers, marked by diversified distribution channels. It has a varied product mix, which includes a wide range of pipes and tubes (such as black pipes, galvanised pipes, telecommunication transmission tower and substation structure) along with cold rolled coils and sheets, and structural engineering products. ICRA also notes that the company is venturing into new business verticals such as solar power and defence sector, to diversify its business profile. These ventures remain at a nascent stage of development and the investment plan is yet to be ascertained. Any large debt-funded investment would be credit negative for the company and ICRA will closely monitor the developments in this regard.

The ratings are, however, constrained by RSTL's exposure to risks arising from volatile raw material prices and intense competition. The ratings are also tempered by RSTL's high working capital intensive nature of operations owing to inventory holding requirements, along with the advances extended. Also, disruption in operations in the Nigerian step-down subsidiary impacted the working capital requirements.

The Stable outlook on RSPL's long-term rating reflects ICRA's opinion that the company will continue to benefit from its established position in the ERW pipe segment with increasing focus on value-added products.

## Key rating drivers and their description

### Credit strengths

**Geographically diversified manufacturing presence and product profile** – The company had a total production capacity of 2,94,000 MTPA as on September 30, 2024. It has two manufacturing facilities at Sahibabad, Uttar Pradesh with an installed capacity of 60,000 MTPA. Its manufacturing facility at Khopoli, Maharashtra has an installed capacity of 1,62,000 MTPA (enhanced from 1,32,000 MTPA) and the one at Anantapur, Andhra Pradesh has an installed capacity of 72,000 MTPA. The company had plans to set up a new plant in Raipur, Chhattisgarh to cater to the market in the eastern region of India. However, the plan has been dropped for which part of land was acquired for Rs 5 crore and has been sold for Rs 13 crore in H1 FY2025.

**Established track record of operations and experienced management** – RSTL is involved in manufacturing and trading of steel tubes and galvanised iron pipes for more than four decades now. The long track record of the company in the black steel pipes and galvanised steel pipes industry has facilitated a strong market presence, which has supported the healthy expansion of its operations over the years.

**Adequate capitalisation profile** – The equity infusion of Rs. 55.5 crore in FY2024 and Rs 7.5 crore in 9M FY2025 has reduced the leverage (TD/TNW) to 0.4 times in FY2024 and 0.3 times in 9MFY2025. However, due to moderation in profitability in 9MFY25, (TD/OPBDITA) increased from 2.4x in FY24 to 3.6x in 9MFY25. In FY25, the company reduced in total bank loans of wholly owned subsidiary - Lepakshi Tubes Private Limited and prepaid some other vehicle loans and loan against properties. The company's total debt of Rs. 100 crore as on December 31, 2024 comprises of working capital borrowing of Rs. 82.2 crore (~82% of total debt), term loans of Rs. 5.45 crore (~5%) and unsecured loans of Rs. 11.7 crore (~12%).

### Credit challenges

**Moderation in earnings in FY2025** - RSTL performance weakened in the current fiscal, owing to significant correction in steel prices resulting in lower operating margins (OPM) of ~2.7% in 9M FY2025 compared to 5.7% reported in FY2024. While the performance was adversely impacted in Q2 FY2025, owing to inventory losses, the OPM improved to 3.1% in Q3 FY2025 due to profits from trading segment and profits from manufacturing segment continues to remain low. Consequently, the full year OPM is expected around ~3.1%, resulting in deterioration in the debt coverage indicators of the company. In 9M FY2025, the interest coverage ratio (OPBDITA/Interest & Finance charges) declined to 2.4 times from 2.8 times in FY2024.

**Working capital intensive operations** – The company, being a steel convertor, is exposed to the volatility in steel prices on account of a lag in price adjustments following fluctuations in prices of hot-rolled coils, in addition to the inventory maintenance. RSTL's working capital intensive nature of operations owing to inventory holding requirements and increase in advances over the past 18 months. Further, the working capital requirement increased due to disruption in the Nigerian operations amid geo-political issues. There has been outstanding amount of Rs 48 crore as on March 31, 2024, from Nigeria. Out of that, ~Rs 18 crores has been realised in FY2025. Another Rs 4.5-5 crore is in pipeline and would be done by March 2025. ICRA also notes the significant increase in the advance to suppliers in FY2024 and 9M FY2025, resulting in significant increase in working capital intensity (net working capital/OI). Moreover, the fund-based limits have been reduced to Rs 80 crore from Rs. 125 crore earlier, which reduces the liquidity buffer available.

**Intense competition in the industry** – The company's profitability remains susceptible to the competition prevailing in the market, given the fragmented nature of the steel pipes industry. The ERW pipes market is inherently competitive with the presence of several large established as well as many unorganised players. However, the long presence in the market for four decades provides comfort.

## Liquidity position: Adequate

RSPL's liquidity position remains adequate with free cash and bank balance of ~Rs. 1.9 crore as on December 31, 2024 against repayment obligations due in Q4 FY2025 of Rs 0.50 crores. ICRA expects that the company's cash flows from operations along with available buffer in working capital lines to be adequate to fund its routine capex requirements as well as the scheduled debt repayment obligations of ~Rs. 3.4 crore each in FY2026 and Rs 1.6 crores in FY2027.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if the company demonstrates a sustained improvement in its revenues and profitability, thereby strengthening the liquidity position and debt coverage metrics.

**Negative factors** – The ratings could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company, resulting in a deterioration in debt protection metrics. Further, any large debt-funded capex or higher working capital requirement weakening the liquidity position could trigger ratings downgrade.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit rating Methodology Iron &amp; Steel</a>  |
| Parent/Group support            | Not Applicable  |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated financials of RSTL, details of which have been enlisted in Annexure II. |

## About the company

Incorporated in 1974 by Mr. Harbans Lal Bansal and currently managed by his son, Mr. Naresh Kumar Bansal and grandson Mr. Richi Bansal, RSTL manufactures and trades steel tubes and pipes and galvanised iron pipes. RSTL's product range includes MS ERW black pipes of 15 mm-200 mm diameter and galvanised iron pipes of 15 mm-150 mm NB in light, medium and heavy sizes. RSTL has a subsidiary in the UAE and a step-down subsidiary in Nigeria.

In July 2022, the company further had acquired a stake in M/s Ashoka Infrasteel and Hagar Mega Mart Pvt. Ltd. However, the company sold 32.4% stake in Hagar Mega Mart Private Limited in March 2024 and further 17.6% stake on May 31, 2024, after completion of above disinvestment, M/s Hagar Mega Mart Private Limited ceased to be Associate of the Company w.e.f. March 06, 2024. RSTL has four manufacturing facilities located at Sahibabad (Uttar Pradesh), Khopoli (Maharashtra) and Anantpur (Andhra Pradesh) with a total production capacity of 2,94,000 MTPA as on September 30, 2024.

## Key financial indicators (audited)

| RSTL Consolidated                                    | FY2023  | FY2024 | 9M FY25* |
|--|---------|--------|----------|
| Operating income                                     | 1,336.8 | 1046.5 | 758.5    |
| PAT  | 25.8    | 29.3   | 15.8     |
| OPBDIT/OI  | 3.8%    | 5.7%   | 2.7%     |
| PAT/OI   | 1.9%    | 2.8%   | 2.1%     |
| Total outside liabilities/Tangible net worth (times) | 1.6     | 1.1    | 1.0      |
| Total debt/OPBDIT (times)                            | 3.7     | 2.4    | 3.6      |
| Interest coverage (times)                            | 2.5     | 2.8    | 2.4      |

Source: Company, ICRA Research; \*Unaudited; 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 (FY2025) |                         |                    | Chronology of rating history for the past 3 years |                    |             |                    |        |        |
|----------------------------------|------------------|-------------------------|--------------------|---|--------------------|-------------|--------------------|--------|--------|
|                                  | FY2025           |                         |                    | FY2024  |                    | FY2023      |                    | FY2022 |        |
|                                  | Type             | Amount rated (Rs crore) | Mar 21,2025        | Date  | Rating             | Date        | Rating             | Date   | Rating |
| Long term-Cash credit-Fund based | Long term        | 80.00                   | [ICRA]BBB-(Stable) | 12-JAN-2024                                       | [ICRA]BBB-(Stable) | 04-JAN-2023 | [ICRA]BBB-(Stable) | -      | -      |
| Short term-Others-non fund based | Short term       | 30.00                   | [ICRA]A3           | 12-JAN-2024                                       | [ICRA]A3+          | 04-JAN-2023 | [ICRA]A3           | -      | -      |

### Complexity level of the rated instruments

| Instrument                                    | Complexity indicator |
|---|----------------------|
| Long-term fund-based – Cash credit            | Simple               |
| Short -term – Non-fund based - ILC/FLC and BG | 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   | Long-term Fund-based – Cash Credit            | -                | -           | -        | 80.00                    | [ICRA]BBB- (Stable)        |
| NA   | Short -term – Non-Fund based - ILC/FLC and BG | -                | -           | -        | 30.00                    | [ICRA]A3                   |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

| Company Name                        | Ownership           | Consolidation Approach |
|-------------------------------------|---------------------|------------------------|
| Rama Steel Tubes Limited            | 100% (rated entity) | Full Consolidation     |
| Lepakshi Tubes Private Limited      | 100%                | Full Consolidation     |
| RST International Trading FZE       | 100%                | Full Consolidation     |
| RST Industries Limited              | 100%                | Full Consolidation     |
| Pir Panchal Constructions Pvt. Lt.d | 25%                 | Equity Method          |
| Hagar Mega Mart Private Limited*    | 50%                 | Equity Method          |
| M/s Ashoka Infrasteel               | 51%                 | Full Consolidation     |

Source: Company

\* The Company held 50% stake in Hagar Mega Mart Private limited and sold 32.4% stake in Hagar Mega Mart Private Limited in March 2024 and further 17.6% stake on May 31, 2024, after completion of above disinvestment, M/s Hagar Mega Mart Private Limited ceased to be Associate of the Company w.e.f March 06,2024. The same was consolidated in FY24, however wasn't consolidated in 9MFY25.

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