

January 04, 2023

Rama Steel Tubes Limited: [ICRA]BBB-(Stable)/[ICRA]A3; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Cash Credit	105.00	[ICRA]BBB- (Stable); assigned
Short Term - ILC/FLC and BG	60.00	[ICRA]A3; assigned
Total	165.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA's ratings action favourably factors in Rama Steel Tubes Limited's (RSTL) experienced management 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 of logistics costs and healthy relationships 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. The sales volume has also significantly increased in the current year owing to ramp-up of capacities.

While assigning the ratings, ICRA also takes cognisance of the ongoing capacity expansion plans at an estimated outlay of around Rs. 130-150 crore over the next three years, which will increase the company's total capacity by ~1,50,000 mtpa. The ratings also factor in the adequate capital structure supported by healthy equity infusion, which is expected to support the company's capex plans, though project execution risks remain in terms of any time and cost over-run. Post the expansion, the company will benefit from increased scale and other operational synergies, which are expected to strengthen its overall operating profile.

The ratings are, however, constrained by RSTL's exposure to risks arising from volatile raw material prices and intense competition. The same constrains the operating margins, which remained moderate over the past few years. While the margins improved in FY2022, the same was adversely impacted in H1 FY2023 due to inventory loss amid a decline in steel prices. Low profitability and working capital debt to fund the working capital requirement resulted in modest coverage indicators, as indicated by TD/OPBDITA of 5.1 times (annualised) and an interest coverage of 1.8 times in H1 FY2023. While the profitability is expected to improve in H2 FY2023, the coverage indicators will continue to remain modest. The rating is also tempered by RSTL's high working capital intensive nature of operations owing to high inventory requirements and high collection period, primarily from few government projects, resulting in an average working capital utilisation of 83% for the last one year (including both fund and non-fund-based limits) and 87% as of September 2022.

The Stable outlook on RSPL's rating reflects ICRA's opinion that the company will continue to benefit from its established position in the organised sector 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 has a total production capacity of 2,64,000 MTPA as on September 30, 2022. 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 1,32,000 MTPA and the one at Anantpur, Andhra Pradesh has an installed capacity of 72,000 MTPA. The company is further planning to set up a

new plant in Raipur, Chhattisgarh to cater to the market in the eastern region of India. The company's products find application in various industries such as automobiles, real estate, defence, telecom, irrigation and infrastructure.

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 supported by recent equity infusion – The company's ongoing capex plans are supported by healthy equity infusion, resulting in low reliance on new term loan to fund the expansion. Post the capex, the company is expected to benefit from increased scale and other operational synergies, which would further strengthen its overall operating profile. However, the company remained exposed to project execution risks in terms of any time and cost over-run.

Credit challenges

Low operating profitability – 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. As witnessed in H1 FY2023, the company's margins were impacted due to inventory loss amid a decline in steel prices. In the current fiscal, the operating margins were adversely impacted and remained at 2.4% in H1 FY2023 against 5.5% in FY2022, primarily due to inventory loss amid a decline in steel prices. While the company's profitability is expected to improve primarily in H2 FY2023, the overall operating margins would continue to remain modest.

Moderate coverage indicators – Low profitability and working capital debt to fund the working capital requirement resulted in modest coverage indicators, as indicated by TD/OPBDITA of 5.1 times (annualised) and an interest coverage of 1.8 times in H1 FY2023. The coverage indicators are expected to remain modest in the current fiscal.

Working capital intensive operations – RSTL's working capital intensive nature of operations owing to high inventory requirements and long collection period resulted in significant reliance on working capital borrowings. This led to high average utilisation of working capital limits, which remained at 83% for the last one year (including both fund and non-fund based limits) and 87% as of September 2022.

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, established presence in the market for four decades provides comfort.

Environmental and Social Risks

The company, owing to its presence in the steel tubes industry, remains dependent on consumption of power and fuel for running its facilities. The manufacturing process emits carbon and discharges other chemicals (for example lubricants). However, the company has been undertaking various initiatives to address environmental issues. The environmental and social commitments of the company include waste management, sanitation initiatives, skill-based education, improvement of underprivileged people's lives, women empowerment and youth enablement.

Liquidity position: Adequate

RSPL's liquidity position remains **adequate** corroborated by sizeable free cash and bank balance of ~Rs. 24.8 crore as on September 30, 2022. ICRA expects that the company's cash accruals and equity infusion would be adequate to fund its capex requirements as well as meet the scheduled debt repayment obligations of ~Rs. 7 crore in the current fiscal and ~Rs. 8 crore in the next fiscal. The liquidity profile is also supported by adequate cushion in the form of undrawn working capital limits.

Rating sensitivities

Positive factors – ICRA could upgrade the company’s ratings if it demonstrates a strong growth in its earnings, leading to improved profitability, liquidity and coverage metrics. Specific triggers for ratings upgrade would be an interest coverage ratio above 3.0 times on a sustained basis at the consolidated level.

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 sizeable debt-funded capex or higher working capital requirement, leading to an adverse impact on the liquidity position of the company, could trigger a rating downgrade. Specific credit metric for ratings downgrade includes an interest coverage ratio below 2.0 times on a sustained basis at the consolidated level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Consolidation Approach
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, strengthening the company’s presence in global markets. In July 2022, the company further acquired a stake in M/s Ashoka Infrasteel and Hagar Mega Mart Pvt. Ltd. RSTL has four manufacturing facilities located at Sahibabad (Uttar Pradesh), Khopoli (Maharashtra) and Anantpur (Andhra Pradesh) with a total production capacity of 2,64,000 MTPA as on September 30, 2022. The company is planning to set up a new plant in Raipur, Chhattisgarh to cater to the markets in the eastern region of India.

Key financial indicators (audited)

RSTL (Consolidated)	FY2021	FY2022	H1 FY2023
Operating income	470.4	768.2	587.3
PAT	11.0	28.0	8.9
OPBDIT/OI	3.9%	5.5%	2.4%
PAT/OI	2.3%	3.6%	1.5%
Total outside liabilities/Tangible net worth (times)	1.5	1.8	1.9
Total debt/OPBDIT (times)	4.7	3.2	5.1
Interest coverage (times)	2.4	3.9	1.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023 Jan 4, 2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1 Cash Credit	Long term	105.0		[ICRA]BBB-(Stable)	-	-	-
2 ILC/FLC and BG	Short term	60.0		[ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Cash Credit	Simple
Short Term - 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	Cash Credit	-	-	-	105.0	[ICRA]BBB-(Stable)
NA	ILC/FLC and BG	-	-	-	60.0	[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	Subsidiary/ Associate/ Joint Venture	RSTL Ownership	Consolidation Approach
Rama Steel Tubes Limited	Parent	100% (rated entity)	Full Consolidation
Lepakshi Tubes Private Limited	Wholly Owned Subsidiary	100%	Full Consolidation
RST International Trading FZE	Wholly Owned Foreign Subsidiary	100%	Full Consolidation
RST Industries Limited	Step-down Foreign Subsidiary	100%	Full Consolidation
Pir Panchal Constructions Pvt. Lt.d	Joint Venture	25%	Equity Method
Hagar Mega Mart Private Limited	Associate	50%	Equity Method
M/s Ashoka Infrasteel	Partnership Firm	51%	Full Consolidation

Source: Company

ANALYST CONTACTS

Jayanta Roy

+91-33-71501100

jayanta@icraindia.com

Priyesh Ruparelia

+91-22- 61693328

priyesh.ruparelia@icraindia.com

Sumit Jhunjunwala

+91-33- 7150 1111

sumit.jhunjunwala@icraindia.com

Perna Aggarwal

+91-124- 4545380

perna.aggarwal1@icraindia.com

Maitri Vira

+91-79- 4027 1538

maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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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



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