

September 10, 2019

Ramesh Company: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Cash Credit	14.00	14.00	[ICRA]B+ (Stable); Reaffirmed
Unallocated Limit	6.00	6.00	[ICRA]B+ (Stable)/[ICRA]A4; Reaffirmed
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers Ramesh Company's (RC) trading nature of business leading to low operating profitability, which declined further in FY2019. Besides, the ratings are constrained by its high gearing, depressed debt coverage indicators and high working capital intensity of operations. Though RC's working capital intensity of operations declined to an extent in FY2019, the same still remained high, exerting pressure on the liquidity position of the firm, as also reflected by high utilisation of the channel financing limits. This coupled with the cyclical nature associated with the steel industry is likely to keep the revenues and cash flows of the firm volatile in the future. The ratings also consider the risk associated with the entity's profile as a partnership firm, including the risk of capital withdrawal by the partners.

The ratings, however, favourably factor in the experience of the promoters in the steel trading business and the established relationship with Tata Steel Ltd. (TSL) as the firm is a distributor of TSL's Astrum brand hot rolled (HR) products.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that RC will continue to benefit from the extensive experience of its partners, the firm's established position as a distributor of TSL's Astrum brand hot rolled products and long relationship with customers.

Key rating drivers and their description

Credit strengths

Experience of promoters in steel trading business - The promoters have long experience in the iron and steel trading industry. The customer base of RC comprises primarily HR product retailers in West Bengal. Established relationship with clients results in repeat orders.

Authorised distributor of TSL's Astrum brand HR sheets and coils in West Bengal - RC trades in Tata Steel's HR products, which find application in the automotive, earth moving equipment, railways, fabrication, construction and industrial machinery. The firm is the distributor of TSL's Astrum brand HR products in West Bengal.

Credit challenges

Limited value addition and intensely competitive nature of steel-trading business result in low profitability -Low margin in trading sales and intense competition in the steel trading industry kept the firm's operating margin at a low level. The same declined further and stood at 3.85% in FY2019 compared to 5.45% in the previous year.

High working capital debt continues to keep gearing high though the same has declined marginally in FY2019 compared to the previous year; coverage indicators continue to remain depressed- The working capital requirement of RC is high as the firm makes cash payment for purchases from TSL but extends credit to its customers. It also maintains adequate inventory levels. Out of RC's total debt of Rs. 56.66 crore as on March 31, 2019, working capital loan (consisting of cash credit and channel finance) stood at Rs. 43.22 crore. The remaining is interest-bearing unsecured loans from partners and their relatives. High debt level and a modest tangible net worth kept the firm's gearing high at 6.56 times as on March 31, 2019, though the same declined to an extent marginally from 6.82 times in the previous year. RC's low operating profitability and a highly leveraged capital structure resulted in weak coverage indicators with interest coverage of 1.09 times and a total debt relative to OPBDITA of 8.60 times in FY2019.

High working capital requirement exerts pressure on liquidity - RC's working capital intensity declined to an extent to 38% in FY2019 from 49% in FY2018, primarily due to a decrease in receivable days on the back of lower year-end sales in FY2019. Nevertheless, the firm's working capital intensity of operations still remained high, adversely impacting its liquidity position, as reflected by high utilisation of channel financing limits.

Vulnerability to fluctuation in steel prices and cyclicity in construction and infrastructure sectors- The firm's profitability and cash flows are likely to remain susceptible to volatility in steel prices to an extent. Moreover, the demand of products traded by RC, i.e., HR sheets and HR coils are mainly derived from the construction and infrastructure sectors, which exhibit significant cyclicity in tandem with the macro-economic scenario.

Risks associated with the entity's status as a partnership firm - The legal status of the entity as a partnership firm exposes it to the risks of capital withdrawal by the partners.

Liquidity position: Stretched

RC has a **stretched** liquidity position, with low fund flow from operations (Rs. 0.5-0.6 crore in the last two fiscals) and a modest cash balance (Rs. 0.10 crore as on March 31, 2019). The firm's utilisation of the channel financing facilities remained high in the recent months, constraining the liquidity further, notwithstanding relatively low utilisation of its cash credit limit and absence of any long-term debt repayment obligations.

Rating sensitivities

Positive triggers- ICRA could upgrade RC's ratings if the firm demonstrates a sustained improvement in interest coverage ratio, by increasing its operating profits or by reducing its interest and finance costs. The specific credit metrics that could lead to an upgrade of the firm's rating is an increase in the interest coverage (OPBDITA/Interest & Finance Charges) to greater than 1.5 times on a sustained basis.

Negative triggers- Negative pressure on the firm's rating could arise if, among other reasons, the interest coverage ratio falls below 1.0 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial statements of Ramesh Company

About the company

RC was incorporated in 1960 as a proprietorship firm to undertake distributorship of Tata Steel's various HR products. In 1974, it was reconstituted as a partnership firm. Based in Kolkata, RC is an authorised distributor of TSL's HR products, sold under the brand, Tata Astrum, in West Bengal.

Key financial indicators

Standalone	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	132.48	171.34
PAT (Rs. crore)	0.56	0.49
OPBDIT/OI (%)	5.45%	3.85%
RoCE (%)	10.95%	10.04%
Total Outside Liabilities/Tangible Net Worth (times)	6.89	6.64
Total Debt/OPBDIT (times)	7.88	8.60
Interest Coverage (times)	1.09	1.09
DSCR	1.09	1.09

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					10-Sep-2019	29-May-2018	-	03-Feb-2017
1	Cash Credit	Long Term	14.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)
2	Unallocated Limit	Long Term/ Short Term	6.00	-	[ICRA]B+ (Stable)/[ICRA]A4	[ICRA]B+ (Stable)/[ICRA]A4	-	[ICRA]B+ (Stable)/[ICRA]A4

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	14.00	[ICRA]B+ (Stable)
NA	Unallocated Limit	NA	NA	NA	6.00	[ICRA]B+ (Stable)/[[CRA]A4

Source: Ramesh Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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