

Press Release

Rama Gum Industries India Limited

July 03, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.45.00 crore bank facilities of RAMA GUM INDUSTRIES INDIA LIMITED.

Rama Gum Industries was established as a partnership firm in 1989 and later in 2013 was constituted as a public limited company by Mr. Babulal Shah (Founder), Mr. Mitul Shah (Managing director) and Mr. Jinpal Shah (Director). The company is engaged in manufacturing and trading of guar splits, guar churi, guar korma, and guar gum powder from guar seeds. The company has four manufacturing units situated at Deesa (Gujarat). The company has its flagship brand 'Ricol'. The installed capacity stands at 20 MTPD for guar gum splits, 100 MTPD for guar churi korma and 48 MTPD for guar gum powder with utilisation levels at 80 percent. The company largely caters to the export market and sells its product to 67 countries and the industry to which RGIL caters to are oil drilling, explosives, food, animal feed, pharmaceuticals and cosmetics to name a few.

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

Mr. Babul Shah has more than four decades of experience in the guar gum industry. Mr. Mitul Shah looks after the production and export. He has more than two decades of experience in the same line of business. This has enabled the company to forge healthy relationships with customers and suppliers. Acuité believes that RGIL will continue to benefit from experienced management and established track record customer relationship over the medium term.

• **Moderate financial risk profile**

The financial risk profile of RGIL is moderate marked by tangible net worth of Rs.30.94 crore as on 31 March, 2018 (Provisional) which includes unsecured loans to the tune of Rs.1.70 crore considered as quasi-equity. The total debt of Rs.37.52 crore outstanding as on 31 March, 2018 (Provisional) are working capital borrowing from the bank. The gearing is moderate at 1.21 times as on 31 March, 2018 (Provisional) as against 1.57 times as on 31 March, 2017. Interest Coverage Ratio stood at 2.73 times in FY2018 (Provisional) as against 2.46 times in FY2017. DSCR stood at 2.73 times in FY2017 as against 2.08 times in FY2017. The net cash accruals stood at Rs.4.73 crore in FY2018 (Provisional) as against Rs.3.30 crore in FY2017. The NCA/TD ratio stood at 0.13 times in FY2018 (Provisional) as against 0.08 times in FY2017. RGIL has no long term debt obligation. Acuité believes that RGIL will sustain its financial risk profile backed by healthy accruals over the near to medium term.

• **Healthy business profile with moderate profitability**

The company has established healthy relations with its customers and suppliers. RGIL has registered growth in revenue of Rs.254.48 crore in FY2018 (Provisional) as against Rs.244.71 crore in FY2017 and Rs.178.35 crore in FY2016. RGIL has a product profile which includes Guar gum powder, Guar splits and Guar churi. Further, RGIL has added a new product in the existing business profile i.e. Guar Roasted Korma, the production has started from April 2018 and will help the company to increase its turnover in the near to medium term. The operating profitability stood 2.93 percent in FY2018 (Provisional) as against 2.90 percent in FY2017. The

reason for margins to remain stable is due to fall in raw material prices (guar seeds) in FY2018 over FY2017. Acuité believes that RGIL will maintain a healthy business risk profile along with growth in revenues and profitability margins on the back of healthy order book position and new product which has been added in the exiting business profile over the medium term.

- **Comfortable working capital cycle**

The working capital cycle of RGIL is comfortable marked by Gross Current asset days of 84 in FY2018 (Provisional) as against 89 days in FY2017. This is majorly on account of lower inventory holding period and lower receivables. The receivable days stood at 38 in FY2018 (Provisional) as against 58 days in FY2017. The inventory holding period stood at 40 days in FY2018 (Provisional) as against 32 days in FY2017. The company does not get any credit period from its suppliers. The average bank limit utilisation stood at ~77 percent for the last six months ended April 2018. Acuité believes that RGIL will maintain adequate funds in order to maintain its working capital cycle over the medium term.

Weaknesses

- **Susceptibility to volatility in raw material prices and adverse impact of regulatory changes**

The major raw material for RGIL is Guar seeds whose prices are highly volatile in nature. In India, guar seed (the input for guar gum) is mainly grown in two states- Haryana and Rajasthan and harvested between September and December. RGIL's margins and operating income are susceptible to volatility in the raw material prices, uneven rainfall may impact the production of guar seed and also the regulatory changes may further impact RGIL. RGIL's ability to sustain its revenue streams and the profitability margins will be key rating sensitivities over the medium term.

Analytical Approach

Acuité has considered the standalone business risk profile of Rama Gum Industries India Limited to arrive at the rating.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	254.48	244.71	178.35
EBITDA	Rs. Cr.	7.46	7.09	4.36
PAT	Rs. Cr.	2.79	2.55	1.56
EBITDA Margin	(%)	2.93	2.90	2.45
PAT Margin	(%)	1.10	1.04	0.88
ROCE	(%)	9.86	12.28	9.35
Total Debt/Tangible Net Worth	Times	1.21	1.57	0.81
PBDIT/Interest	Times	2.73	2.46	2.77
Total Debt/PBDIT	Times	5.03	5.51	3.91
Gross Current Assets (Days)	Days	84	89	75

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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