

Press Release

Rama Gum Industries India Limited

December 05, 2018



Rating Withdrawn and Assigned

Total Bank Facilities Rated*	57.00 Cr. (Enhanced from Rs. 45.00crore)
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Withdrawn)

*Refer annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 57.00 crore bank facilities of Rama Gum Industries India Limited (RGIL). The outlook is '**Stable**'.

Further, Acuité has withdrawn the short term rating of '**ACUITE A3**' (**read as ACUITE A3**) to the Rs. 45.00 crore bank facilities of Rama Gum Industries India Limited (RGIL). The rating withdrawal is in accordance with the Acuité's policy on withdrawal of rating.

RGIL 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.

Analytical Approach:

Acuité has considered standalone business and financial risk profile of RGIL to arrive at the rating.

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 to forge customer relationships over the medium term.

Moderate financial risk profile

The financial risk profile of RGIL has remained moderate marked by tangible net worth of Rs.29.99 crore as on 31 March, 2018 (PY: Rs.26.30 crore) which includes unsecured loan to the tune of Rs.1.82 crore considered as quasi-equity.

The total debt of Rs.37.51 crore outstanding as on 31 March, 2018 is working capital borrowing from bank. The gearing is moderate at 1.25 times as on 31 March, 2018 as against 1.57 times as on

31 March, 2017. The gearing has improved on account of lower utilisation of bank limits in FY2018 over FY2017.

The moderate profitability coupled with low gearing levels has resulted in moderate debt protection metrics with interest coverage of 2.80 times (PY: 2.46 times) and NCA/TD of 0.10 times for FY2018 (PY: 0.08 times). The ICR has improved on account of improvement in EBITDA level coupled with decline in interest cost in FY2018 over FY2017.

The net cash accruals stood at Rs.3.68 crore in FY2018 as against Rs.3.30 crore 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.252.18 crore in FY2018 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 3.04 percent in FY2018 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 existing business profile over the medium term.

Comfortable working capital cycle

The working capital cycle of RGIL has remained comfortable marked by Gross Current Asset (GCA) days of 74 in FY2018 (PY: 84 days). The GCA days have improved on account of better realisation from the receivables in FY2018 over FY2017. The receivable days stood at 39 in FY2018 as against 58 days in FY2017. The inventory holding period remains in the range of 30 to 25 days. The company does not get any credit period from its suppliers which results in higher bank limit utilisation. The average bank limit utilisation stood at 80.36 percent for the last six months ended October 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, the prices of which 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.

Outlook: Stable

Acuité believes that RGIL will maintain a 'Stable' outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

About the rated entity- Key financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	252.18	244.71	178.35
EBITDA	Rs. Cr.	7.66	7.09	4.36
PAT	Rs. Cr.	2.88	2.55	1.56
EBITDA Margin	(%)	3.04	2.90	2.45
PAT Margin	(%)	1.14	1.04	0.88
ROCE	(%)	10.51	12.28	9.35
Total Debt/Tangible Net Worth	Times	1.25	1.57	0.81
PBDIT/Interest	Times	2.80	2.46	2.77
Total Debt/PBDIT	Times	4.75	5.51	3.91
Gross Current Assets (Days)	Days	85	89	75

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Jul-2018	PC/PCFC	Short term	45.00	ACUITE A3 (Assigned)

*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 (Withdrawn)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE BBB-/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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