

Press Release

Rama Gum Industries India Limited

D-U-N-S® Number: 91-853-0952

August 22, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 57.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

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

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 13200 MTPA for guar gum splits, 30000 MTPA for guar churi/korma and 12210 MTPA for guar gum powder with utilisation levels at 89.50 per cent. The company largely caters to the export market and sells its product to 45 countries. The industry to which RGIL caters to includes oil drilling, explosives, food, animal feed, pharmaceuticals and cosmetics to name a few.

Analytical Approach

Acuite 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**

The promoters Mr. Babul Shah has more than four decades of experience in the guar gum industry. Mr. Mitul Shah manages the production and export, who 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. The company is also well supported by second line of management. Acuite believes that RGIL will continue to benefit from experienced management and established track record to forge customer relationships over the medium term.

- Healthy business profile marked by comfortable working capital cycle**

RGIL has registered growth in revenue to Rs. 322.16 crores in FY2019 (Provisional) as against Rs.252.18 crore in FY2018; thus registered a growth of 27.75 per cent YoY. 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 this has helped the company to increase its turnover in current financial year. The working capital cycle of RGIL has remained comfortable marked by Gross Current Asset (GCA) days of 86 in FY2019 (Provisional) as against 85 days in FY2018. The GCA days stood in line with previous year. The receivable days stood at 37 days in FY2019 (Provisional) as against 39 days in FY2018 and 58 days in FY2017. The inventory holding period remains in the range of 40 to 45 days. The company does not get much credit from its suppliers which results in moderate reliance on bank limit. The average bank limit utilisation stood at 74.00 per cent for the last six months ended July 2019.

Acuite believes that RGIL will maintain adequate funds in order to maintain its working capital cycle over the medium term and will maintain a healthy business risk profile over near to medium term.

• Moderate financial risk profile

The financial risk profile of RGIL has remained moderate marked by tangible net worth of Rs. 40.63 crore as on 31 March, 2019 (Provisional) as against Rs.29.99 crore as on 31 March, 2018 which includes unsecured loan to the tune of Rs. 5.84 crore and Rs.1.82 crore considered as quasi-equity. The total debt of Rs.44.38 crore outstanding as on 31 March, 2019(Provisional) is working capital borrowing from bank. The gearing is comfortable at 1.09 times as on 31 March, 2019 (Provisional) as against 1.25 times as on 31 March, 2018. The gearing has improved on account of lower utilisation of bank limits in FY2019 over FY2018. The moderate profitability coupled with low gearing levels has resulted in moderate debt protection metrics with interest coverage of 2.93 times (PY: 2.80 times) and NCA/TD of 0.10 times for FY2019 (Provisional). The ICR has improved on account of improvement in scale of operations in FY2019 over FY2018. The TOL/TNW is moderate at 1.26 times as on 31 March, 2019 (Prov.) as against 1.47 times as on 31 March, 2018. The net cash accruals stood at Rs.4.49 crore in FY2019 (Provisional) as against Rs.3.68 crore in FY2018. RGIL has no long term debt obligation. Acuite believes that RGIL will sustain its financial risk profile backed by healthy accruals over the near to medium term.

Weaknesses

• Susceptibility to volatility in raw material prices, resulting intense competition and adverse impact of regulatory change

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. Further, stiff competition from other established unorganised players has resulted in uneven operating profitability, which stood at 2.78 per cent in FY2019 (Provisional) as against 3.04 per cent in FY2018 and 2.90 per cent in FY2017. Uneven rainfall may impact the production of guar seed and also the regulatory changes may further impact players like RGIL. Acuite believes that RGIL's ability to sustain its revenue streams and the profitability margins will be key rating sensitivities over the medium term.

Liquidity Position

RGIL's has adequate liquidity profile marked net cash accruals of Rs.4.49 crore as on 31 March, 2019(Provisional) as against no long term obligation. The net cash accruals are expected to remain within Rs.4.50 to 5.50 crore under study period of FY2020-22. The current ratio stood at 1.52 times in FY2019 (Provisional). The working capital cycle stood comfortable with GCA days of 86 days in FY2019 (Provisional). RGIL has no long term debt obligation. Gross Current Asset (GCA) days stood at 86 in FY2019 (Provisional) as against 85 days in FY2018. The average bank limit utilisation stood at 74.00 per cent for the last six months ended July 2019. The liquidity of the company is likely to remain adequate over medium term on account of healthy growth in revenues and order book position.

Outlook: Stable

Acuite 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	322.16	252.18	244.71
EBITDA	Rs. Cr.	8.96	7.66	7.09
PAT	Rs. Cr.	3.71	2.88	2.55
EBITDA Margin	(%)	2.78	3.04	2.90
PAT Margin	(%)	1.15	1.14	1.04
ROCE	(%)	11.18	10.51	12.28
Total Debt/Tangible Net Worth	Times	1.09	1.25	1.57
PBDIT/Interest	Times	2.93	2.80	2.46
Total Debt/PBDIT	Times	4.81	4.75	5.51
Gross Current Assets (Days)	Days	86	85	89

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

Not Applicable

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
05-Dec-2018	Packing Credit	Short Term	45.00	ACUITE A3 (Withdrawn)
	Packing Credit	Long Term	55.00	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	2.00	ACUITE BBB- / Stable (Assigned)
03-July-2018	Packing Credit	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. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	55.00 *	ACUITE BBB-/ Stable (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)

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