Press Release

Rama Overseas Limited

September 03, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.25.00 crore of bank facilities of Rama Overseas Limited. The outlook is **'Stable'**.

Rama Overseas Limited (ROL) was incorporated in 1995 at Kolkata by the Soni family for manufacturing and exporting industrial gloves and work wear. Currently, the company managed by Mr. Nand Kishore Soni, Mr. Mahendra Kumar Soni, Mrs. Siddhartha Soni and Mr. Sourav Soni. The company has two divisions, the industrial leather hand gloves division, which accounts for 75 percent of revenue and the balance is from the industrial work wear (IWG) division. The company has two manufacturing facility located Kolkata, West Bengal with the combined capacity of manufacture 1.20 crore pairs of industrial gloves per annum and 10 Lakh pieces of industrial work wear such as shirts, bib pants, and jackets. ROL has recently started supplying leather gloves to the retailers in European countries and the USA.

Hsiang Li Tannery (HLT) was incorporated in 1988 and was taken over by Mr. Siddharth Soni, Partner in 2007. The firm is engaged in processing of raw leather and supplying entirely to Rama Overseas Limited.

Analytical Approach:

Acuité has consolidated the financial and business risk profile of Rama Overseas Limited (ROL) and Hsiang Li Tannery (HSL). The group is herein being referred to as Rama Group. The same is on account of common management, the same line of operations and significant operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The promoter of the group Mr. Nand Kishore Soni along with Mr. Mahendra Kumar Soni possesses more than three decades of experience in the leather industry. The second-generation promoters, Mr. Siddharth Soni and Mr. Sourav Soni (sons of Mr. Nand Kishore Soni) also have experience of more than a decade in the leather industry. The group has a long presence in this sector and has established a healthy relationship with customers for more than a decade. Acuité believes that the group will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term.

Healthy profitability margin

The operating profit margin of the group has been consistently improving and stood healthy at 13.29 per cent in FY2020 (Prov.) as compared to 9.90 per cent in the previous year. This significant increase in operating profitability is on account of a decrease in job work expenses during the year along with the supply of leather gloves directly to the retailers in Europe and USA which led to an improvement in profitability margin. The margins are expected to be sustained at similar levels over the near term. The net profit margin of the group also improved in line with operating margins and stood at 8.26 per cent in FY2020 (Prov.) as compared to 4.53 per cent in the previous year.

Healthy financial risk profile
The financial risk profile of the group is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.41.72 crore in FY 2020 (Prov.) as compared to Rs 30.56 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the group stood low at 0.45 times as on March 31, 2020 (Prov.) when compared to 0.88 times as on March 31, 2019. Interest coverage ratio (ICR) is robust and stood at 14.59 times in FY2020 (Prov.) as against 6.42 times in FY 2019. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.77 times in FY2020 (Prov.) as compared to 0.36 times in the previous year. Going forward, Acuité believes the financial risk profile of the group will be healthy backed by no major debt-funded capex plan over the medium term and improving net cash accruals.

Weaknesses

Working capital intensive nature of operation
The working capital intensive nature of operation of the group is marked by high gross current asset (GCA) days of 154 in FY2020 (Prov.) as compared to 117 days in the previous year. The debtor days of the group stood moderate at 48 days in Fy2020 (Prov.) as compared to 61 days in the previous year. The inventory days of the group has stood moderate at 65 in FY2020 (Prov.) as compared to 36 days in the previous year. The high GCA days is mainly due to the high other current assets of Rs.16.24 crore in FY2020 (Prov.).

Exposure to foreign exchange rate fluctuation
The group's profitability is susceptible to adverse changes in foreign currency. However, since the group engages in both import and export activities, the forex risk is naturally hedged partially. The balance of foreign currency exposure is mostly hedged by the forward cover.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure

Material Covenant

None

Liquidity Position: Strong

The group has strong liquidity marked by healthy net cash accruals of Rs.14.49 crore as against nil long term debt obligations in FY2020 (Prov.). The cash accruals of the group are estimated to remain in the range of around Rs. 14.06 crore to Rs. 15.49 crore during 2021-22 against no long term debt obligation. The working capital management of the company is marked by Gross Current Asset (GCA) days of 157 days in FY2020 (Prov.). The bank limit of the company has been only 27 percent utilized during the last six months ended in July 2020. The group has neither applied COVID emergency fund nor availed the loan moratorium on their EPC and FBP facilities till the end of August 2020. Further, the liquidity of the group is also strengthened by the unencumbered cash of Rs.4.21 crore and free investment of Rs.1.41 crore during FY2020 (Prov.). The current ratio of the group also stood healthy at 2.18 times in FY2020 (Prov.). Acuité believes that the liquidity position of the group will be strong over the medium term on account of healthy cash accruals against nil long term debt obligations.

Outlook: Stable

Acuité believes that group's business risk profile is expected remain 'Stable' on the back of extensive promoter's experience in the leather industry and strong financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals while sustaining their liquidity position. Further, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, a decline in profitability margin or deterioration in debt protection metrics.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	141.00	146.12
PAT	Rs. Cr.	11.64	6.61
PAT Margin	(%)	8.26	4.53
Total Debt/Tangible Net Worth	Times	0.45	0.88
PBDIT/Interest	Times	14.59	6.42

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	141.00	146.04
PAT	Rs. Cr.	10.01	5.34
PAT Margin	(%)	7.10	3.66
Total Debt/Tangible Net Worth	Times	0.31	0.75
PBDIT/Interest	Times	21.35	6.54

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

CRISIL, vide its press release dated July 22, 2020 had denoted the rating of Rama Overseas Limited as 'CRISIL B+/Stable/A4' ISSUER NOT COOPERATING.

Any other information

None

Applicable Criteria

- Default Recognition –https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htms

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
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Assigned)
Foreign Bill Purchase	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A2 (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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