

Press Release

Rama Overseas Limited

October 27, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 30.00 Cr. (Enhanced from Rs.25.00 Cr.)
Long Term Rating	ACUITE BBB+/Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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**) to the Rs.30.00 Cr bank facilities of Rama Overseas Limited. The outlook is '**Stable**'.

The rating continues to reflect the sound business risk profile of the group marked by long standing experience of the management and diversified geographical presence. The rating also factors in the healthy financial risk profile of the group. However, these strengths are partially offset by the working capital intensive nature of operation and exposure to foreign exchange rate fluctuation.

About the company

Rama Overseas Limited (ROL) was incorporated in 1995 in Kolkata by the Soni family for manufacturing and exporting industrial gloves and work wear. Currently, the company is managed by Mr. Siddhartha Soni, Mr. Sourav Soni and Mr. Shreyesh 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 facilities located in Kolkata, West Bengal with a combined capacity to manufacture 1.20 crore pairs of industrial gloves per annum and 12 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.

About the group company

Hsiang Li Tannery (HLT) was formed 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:

Acuite 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, 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 promoters of the group, Mr. Siddharth Soni Mr. Sourav Soni (sons of Mr. Nand Kishore Soni) and Mr. Shreyesh Soni 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. Acuite believes that the group will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term.

Improving scale of operation coupled with healthy profit margins

The revenue of the group has improved to Rs.160.73 crore in FY2021 as compared to Rs.144.09 crore in the previous year. The group has booked sales of around Rs.68.41 crore till August 2021 (Prov.).

The operating profitability margin of the group stood healthy at 14.23 per cent in FY2021 as compared to 13.02 per cent in the previous year. The improvement in operating profitability margin of the group has been mainly

on account of increase in average realization during the period. The net profitability margin of the group has also been steady at 9.35 per cent in FY 2021 as compared to 9.23 per cent in the previous year. Going forward, Acuite believes the profitability margin of the group will be sustained at healthy levels over the medium term backed by growing demand for industrial leather products world-wide.

Healthy financial risk profile

The financial risk profile of the group is marked by moderate net worth, comfortable gearing and strong debt protection metrics. The net worth of the group stood healthy at Rs.51.30 crore in FY 2021 as compared to Rs 41.77 crore in FY2020. The gearing of the group has stood comfortable at 0.56 times as on March 31, 2021 when compared to 0.45 times as on March 31, 2020. Interest coverage ratio (ICR) is strong and stood at 16.14 times in FY2021 as against 14.80 times in FY 2020. The debt service coverage ratio (DSCR) of the group also stood healthy at 13.54 times in FY2021 as compared to 12.59 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.63 times in FY2021 as compared to 0.85 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation is marked by high gross current asset (GCA) days of 169 days in FY2021 as compared to 151 days in the previous year. The inventory days of the group stood moderate at 60 days in FY2021 as compared to 63 days in the previous year. The debtor days of the group stood moderate at 87 days in FY2021 as compared to 64 days in FY2020. Further, the working capital limit has been utilized ~86 per cent for the last six months ended September 2021. Acuite believes any further elongation in working capital would be a key rating sensitivity factor.

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 are 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
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals of Rs.18.06 crore as against Rs.15.99 crore in the previous year. The cash accruals of the group are estimated to remain in the range of around Rs. 20.38 crore to Rs. 27.59 crore during 2022-24 as against nil long term debt obligations. The current ratio of the group stood comfortable at 1.76 times in FY2021. The working capital management of the group is marked by high Gross Current Asset (GCA) days of 169 days in FY2021. The bank limit of the company has been ~86 per cent utilized during the last six months ended in September 2021. The group has availed covid emergency fund of Rs.2.50 crore. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. Acuite also believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals over the medium term.

Outlook: Stable

Acuite 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	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	160.73	144.09
PAT	Rs. Cr.	15.02	13.30

PAT Margin	(%)	9.35	9.23
Total Debt/Tangible Net Worth	Times	0.56	0.45
PBDIT/Interest	Times	16.14	14.80

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	160.73	144.09
PAT	Rs. Cr.	12.13	10.36
PAT Margin	(%)	7.55	7.19
Total Debt/Tangible Net Worth	Times	0.41	0.31
PBDIT/Interest	Times	34.78	21.21

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
03-Sep-2020	Export Packing Credit	Short Term	10.00	ACUITE A2 (Assigned)
	Foreign Bill Purchase	Short Term	12.50	ACUITE A2 (Assigned)
	Proposed Long Term Facility	Long Term	2.50	ACUITE BBB+/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Axis Bank	Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A2 (Reaffirmed)
Axis Bank	Foreign Bill Purchase	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2 (Reaffirmed)
Axis Bank	Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB+/Stable (Reaffirmed)

Contacts:

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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