

Press Release

Rama Overseas Limited

November 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.50	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	20.00	-	ACUITE A2 Assigned
Bank Loan Ratings	27.50	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating to **ACUITE BBB+ (read as ACUITE triple B plus)** and it has also reaffirmed, and assigned the short term rating of **ACUITE A2 (read as ACUITE A two)** on the Rs.50.00 Cr of bank facilities of Rama Overseas Limited (ROL). The outlook is 'Stable'.

Rationale for the rating

The ratings' reaffirmation favorably considers ROL's (Rama Overseas Limited) established presence in the industrial glove and work wear industries, as well as its extensive client relationships, which support repeat business. The group's strong order book position, which offers near-term revenue visibility, also contributes to the ratings affirmation. However, timely execution of the orders remains to be seen. The ratings favourably factor in ROL's comfortable capital structure and strong debt coverage indicators. Although the ROCE moderated to an extent to ~24.30 per cent in FY2022 from ~28.8 per cent in FY2021, it remains at a comfortable level. The ratings positively consider the company's backward integration resulting from its tannery unit, which contributes around 70-80 per cent to the finished leather requirements, enhancing its cost competitiveness and operational efficiency.

However, the ratings are constrained by the intense industry competition and the group's low bargaining position with its large clients, which keep the margins range bound. Risks associated with the group's significant geographic and client concentration are also considered. The ROL is exposed to the risk of foreign exchange volatility since all its revenue comes from export markets, however this risk is somewhat mitigated by the forward cover. ROL also remains susceptible to changes in export incentives in India and foreign trade policies of importing countries.

About Company

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 facilities located Kolkata, West Bengal with a combined capacity to manufacture 1.20 crore pairs of industrial gloves per annum and 20 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 was engaged in processing of raw leather and supplying entirely to Rama Overseas Limited. In Kolkata, HLT owned its own tannery business. However, from April-21 the operation of the tannery unit is almost negligible. The unit is being rented to ROL for their operation and HLT will receive a rent of Rs 10 lakhs per month.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

Key Rating Drivers

Strengths

Long 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.

Comfortable 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 at Rs.65.96 crore in FY 2022 as compared to Rs 51.30 crore in FY2021. This improvement in networth is mainly due to the retention of current year profit. The gearing of the group has stood comfortable at 0.78 times as on March 31, 2022 when compared to 0.56 times as on March 31, 2021. Interest coverage ratio (ICR) is strong and stood at 12.27 times in FY2022 as against 16.14 times in FY 2021. The debt service coverage ratio (DSCR) of the group also stood comfortable at 10.20 times in FY2022 as compared to 13.54 times in the previous year. The net cash accruals to total debt (NCA/TD) stood steady at 0.40 times in FY2022 as compared to 0.63 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain comfortable on account of steady net cash accruals and no major debt funded capex plan over the near term.

Steady sales growth and healthy profitability margin

The group has reported a revenue of Rs 226.09 crore in FY2022 as compared to Rs.160.73 crore in the previous year led by strong traction in the export market, better product mix, and favourable sales realisations driven by higher volumes in FY2022. The operating profitability margin of the group has stabilized at 12.12 per cent in FY2022 as against of 14.23 per cent in

the previous year. The net profitability margin of the group remains healthy at 7.50 per cent in FY2022 as compared to 9.35 per cent in the previous year. Going forward, Acuite believes the profitability margin of the group will sustain at a healthy level over the medium term backed by growing demand for leather product world-wide.

Weaknesses

Working capital management

The working capital management of the company is marked by high gross current asset (GCA) days of 158 days in FY2022 as compared to 169 days in the previous year. The inventory days stood at 76 days in FY2022 as compared to 60 days in the previous year on account of higher inventory requirements following the increase in raw material prices and ROL stock its raw material majorly to cater any urgent demand. The debtor days of the company stood moderate at 58 days in FY2022 as compared to 87 days in the previous year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels over the medium term mainly due to the long manufacturing cycle.

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 Sensitivities

- Sustainable growth in operating revenues and profitability margins
- Further deterioration in financial risk profile.

Material Covenants

None

Liquidity Position

Adequate

The group has adequate liquidity marked by healthy net cash accruals of Rs. 20.78 crore as against Rs.18.06 crore in the previous year. The cash accruals of the group are estimated to remain in the range of around Rs. 20.39 crore to Rs. 21.57 crore during FY 2023-24 as against nil long term debt obligations. The current ratio of the group stood comfortable at 1.51 times in FY2022. The bank limit of the company has been ~88 per cent utilized during the first nine months ended in September 2022. Acuité 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:

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	226.09	160.73
PAT	Rs. Cr.	16.95	15.02
PAT Margin	(%)	7.50	9.35
Total Debt/Tangible Net Worth	Times	0.78	0.56
PBDIT/Interest	Times	12.27	16.14

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

ICRA, vide its press release dated February 16, 2022 had reaffirmed the rating of ROL to 'ICRA A4 ; ISSUER NOT COOPERATING'

CRISIL, vide its press release dated October 19, 2021 had reaffirmed the rating of ROL to B+/Stable/CRISIL A4; ISSUER NOT COOPERATING'

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Oct 2021	Bills Discounting	Short Term	15.00	ACUITE A2 (Reaffirmed)
	Packing Credit	Short Term	12.50	ACUITE A2 (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.50	ACUITE BBB+ Stable (Reaffirmed)
03 Sep 2020	Packing Credit	Short Term	10.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Long Term	2.50	ACUITE BBB+ Stable (Assigned)
	Bills Discounting	Short Term	12.50	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2 Reaffirmed
Axis Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A2 Assigned
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE A2 Reaffirmed
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE A2 Assigned
Axis Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	2.50	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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