Press Release

Rama Overseas Limited

January 18, 2024

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.50	ACUITE BBB+ | Stable | Reaffirmed	-
Bank Loan Ratings	47.50	-	ACUITE A2 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

Rating Rationale

Acuité has reaffirmed the long term rating to **ACUITE BBB+ (read as ACUITE t riple B plus)** and 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 Reaffirmation

The rating takes into cognizance the steady business risk profile of the group majorly driven by increase in revenue. The group's revenue increased to Rs. 234.10 Cr compared to Rs. 227.88 Cr in FY 2022 on account of increased average realization per unit during the period. Further, the group has achieved revenues of around Rs. 151.22 Cr Cr till November 2023 (Provisional). The rating also factors in the healthy financial risk profile with comfortable capital structure and debt protection metrices. The liquidity position of the group is adequate, which is reflected in sufficient net cash accruals, small term debt repayments and absence of debt funded capex. The rating also factors the group's backward integration in the form of tannery unit which it has leased from its sister concern Hsiang Li Tannery; which contributes fully to the finished leather requirements of ROL's, thus enhancing its cost competitiveness and operational efficiency. The rating also draws comfort from the established operations augmented by experienced management of the group.

However, these strengths are partially offset by the intense competition in the industry, and group's low bargaining power with its large clients which keep the margins under check. The rating is also constrained by the group's vulnerability to foreign exchange fluctuation risk as its entire revenue is generated from export markets, although it is mitigated to an extent by hedging through forward contracts.

About Company

Rama Overseas Limited (ROL), originating in Kolkata in 1985 as 'Rama International,' underwent a transformation in 1995 to specialize in the manufacturing and export of industrial gloves and workwear. Comprising two key divisions - leather items contributing 53% of revenue and industrial garments contributing 47%. The company boasts annual production capacities of 1,20,00,000 pairs of industrial gloves, 20,00,000 units of industrial garments, and 50,000 units of leather items. Its market spans Australia, the US, New Zealand, South Africa, and Europe, facilitated by manufacturing units situated in Bantalla (Kolkata's leather hub) and Topsia.

About the Group

Hsiang Li Tannery (HLT) previously operated its own tannery unit in Kolkata, which experienced minimal activity since April 2021. ROL leased this unit from HLT for its operations, on rental basis. All raw material procurement presently occurs through ROL and the tanning activity is taken in leased unit of HLT, with plans underway for merging both units.

Unsupported Rating
Not Applicable

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

- **Experienced management and long track record of operation**

The group's promoters, Mr. Nand Kishore Soni and Mr. Mahendra Kumar Soni, bring over three decades of experience in the leather industry. Directors Mr. Siddharth Soni and Mr. Sourav Soni, sons of Mr. Nand Kishore Soni, also possess over a decade of industry expertise. The group's enduring presence in the sector has fostered strong relationships with clients such as Lebeurer Sas (France),Wells Lamont (USA) and Protective Industrial Products (Hong Kong) for more than ten years. Acuité anticipates continued advantages from the group's extensive industry experience and robust client relationships in the medium term.

- **Steady scale of operations and reputed customer base though with customer concentration**

Despite a slight decline in capacity utilization in FY 2023 due to the shift towards producing better quality -value products, which required more time for production compared to earlier products, the group achieved increased revenues of Rs. 234.10 Cr compared to Rs. 227.88 Cr in FY 2022. This growth primarily resulted from increased average realization per unit during the period from better quality products. As of November 2023, the group attained revenue of Rs. 151.22 Cr. Acuité believes that the diversified product range of the group will help to maintain its business risk profile over the medium term.
Furthermore, the group's operating margin rose to 12.35% in FY 2023 from 11.21% in FY 2022 due to increased sales realizations. However, the PAT margins declined to 6.68% in FY 2023 from 7.19% in FY 2022 due to an increase in depreciation cost. The group maintained a comfortable ROCE level of about 18.81% in FY 2023.
Going forward, Acuite believes the profitability margin of the group will sustain at the healthy level over the medium term backed by growing demand for leather product world-wide.

- **Healthy financial risk profile**

The financial risk profile of the group is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group stood at Rs.79.45 Cr as on March 31, 2023 as compared to Rs.65.96 as on March 31, 2022 due to accretion to reserves. The gearing of the group stood comfortable at 0.65 times as on 31 March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.86 times as on March 31, 2023. The debt protection matrices of the group remain strong marked by Interest coverage ratio (ICR) of 10.57 times and debt service coverage ratio (DSCR) of 8.81 times for FY2023. The net cash accruals to total debt (NCA/TD) stood healthy at 0.42 times in FY2023.

The group has established a fabrication unit, which commenced operations in H1 of FY 2024. Previously, the company outsourced some part of its fabrication for stitching, cutting and

design adjustments. The total project cost amounted to Rs. 12.75 Cr, encompassing plant and machinery installations, was financed through internal accruals. The group does not have any further capex plans. s
Going forward, Acuité believes that the financial risk profile will remain hralthy over the medium term, supported by healthy internal accrual generation.

Weaknesses

- **Working capital intensive nature of operation**

The working capital operations of the group is intensive marked by high gross current asset (GCA) days of 159 days for FY2023 as compared to 157 days for FY2022. The GCA days are mainly on account high inventory days. The inventory days stood at 87 days in FY2023 as compared to 74 days in FY2022. The debtor days of the group stood moderate at similar level 57 days in FY2023 and FY 2022 respectively. Against this, the group avails credit from its suppliers to support the working capital; creditors stood at 27 days as on March 31, 2023. Acuité believes that the working capital operations of the group will remain at the similar levels over the medium term.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle
- Any debt funded capex plans

Liquidity Position

Adequate

The group has adequate liquidity marked by steady net cash accruals of Rs. 21.73 Cr. as on March 31, 2023 as against no long term debt obligations over the same period. The cash and bank balance stood at Rs. 5.92 Cr for FY 2023. Further, the current ratio of the group stood comfortable at 1.57 times in FY2023. Moreover, the bank limit of the group has been ~68.87 percent utilized for the last seven months ended in November 2023. However, the working capital operations of the group is intensive marked by high gross current asset (GCA) days of 159 days for FY2023 as compared to 157 days for FY202. Acuité believes that the liquidity of the group is likely to remain adequate on account of healthy cash accruals and absence of any major debt funded capex plans over the medium term.

Outlook:

Acuité believes that group's business risk profile is expected to remain 'Stable' on the back of extensive promoter's experience in the leather industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while improving their margins and accruals or improvement in their working capital cycle. 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	234.10	227.88
PAT	Rs. Cr.	15.65	16.38
PAT Margin	(%)	6.68	7.19
Total Debt/Tangible Net Worth	Times	0.65	0.78
PBDIT/Interest	Times	10.57	12.02

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

Not Applicable

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, Acuité 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
07 Nov 2022	Packing Credit	Short Term	12.50	ACUITE A2 (Reaffirmed)
	FBN/FBP/FBD/PSFC/FBE	Short Term	15.00	ACUITE A2 (Reaffirmed)
	Packing Credit	Short Term	12.50	ACUITE A2 (Assigned)
	Working Capital Demand Loan	Long Term	2.50	ACUITE BBB+ | Stable (Reaffirmed)
	FBN/FBP/FBD/PSFC/FBE	Short Term	7.50	ACUITE A2 (Assigned)
27 Oct 2021	FBN/FBP/FBD/PSFC/FBE	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)

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	22.50	ACUITE A2 | Reaffirmed
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A2 | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE BBB+ | Stable | Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022–49294017 mohit.jain@acuite.in Dipti Choudhary Analyst-Rating Operations Tel: 022-49294065 dipti.choudhary@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.