

Press Release

Rama Udyog Private Limited

November 20, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 27.50 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.27.50 crore of bank facilities of Rama Udyog Private Limited. The outlook is '**Stable**'.

Incorporated in 2016, Rama Udyog Private Limited (RUPL) is currently managed by Mr. Sanjay Kumar Goyal and Mr. Suresh Kumar Goyal. The company is engaged in manufacturing of sponge iron and MS billet with an installed capacity of 60000 MTPA and 58600 MTPA respectively. The company has its manufacturing facility located at Raipur, Chhattisgarh.

Incorporated in 2008, Raipur based Rama Power & Steel Private Limited is engaged in manufacturing of TMT bar with the installed capacity of 100000 MTPA, under the brand name of 'Rama TMT'. Currently, the company is managed by Mr. Sanjay Kumar Goyal and Mr. Suresh Kumar Goyal. The company has its manufacturing facility located at Raipur, Chhattisgarh.

Incorporated in 1992, Raipur based RKS Steel India Private Limited is the flagship company of the group promoted by Mr. Sanjay Kumar Goyal and Mr. Suresh Kumar Goyal and engaged in trading of TMT bar and other structural steel products. Company majorly procures TMT bars from Rama Power & Steel Private Limited and other structural steel products from the local market.

Analytical Approach:

Acuité has consolidated the financial and business risk profile of Rama Udyog Private Limited (RUPL), Rama Power and Steel Private Limited (RPSPL) and RKS Steel India Private Limited (RKS). 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 group has a long execution track record of 28 years in the iron and steel industry and is one of the established players with an integrated steel plant in Raipur. The director of the company Mr. Sanjay Kumar Goyal and Mr. Suresh Kumar Goyal has more than two decades of experience in the iron and steel industry. The group has a long presence in this sector and has established a healthy relationship with customers of 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 scale of operation

The revenue of the group stood healthy at Rs.454.78 crore in FY2020 (Prov.) as compared to Rs.440.06 crore in the previous year. Moreover, this sluggish improvement in revenue of the group is on account of a decrease in the average realization of MS billet to around Rs. 29809 MTPA in FY 2020 (Prov.) as compared to about Rs.33600 MTPA in the previous year despite an increase in the volume of sales. The company has earned Rs.291.00 crore till 30th September 2020 (Provisional).

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of the group stood healthy at Rs.112.26 crore in FY 2020 (Prov.) as compared to Rs 102.27 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 0.67 times as on March 31, 2020 (Prov.) when compared to 0.94 times as on March 31, 2019. Moreover, this improvement in gearing of the group is on account of a decrease in short term debt during the period along with improvement in networth during the period. The total debt of Rs.75.30 crore in FY2020 (Prov.) consists of short term debt of Rs.40.28 crore, unsecured loan of Rs.26.39 crore and long term debt of Rs.8.63 crore. Interest coverage ratio (ICR) of the group is healthy and stood at 3.63 times in FY2020 (Prov.) as against 3.31 times in FY 2019. The debt service coverage ratio (DSCR) of the group also stood healthy at 3.11 times in FY2020 (Prov.) as compared to 3.55 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.24 times in FY2020 (Prov.) as compared to 0.25 times in FY2019. Going forward, Acuité believes the financial risk profile of the group will remain healthy on account of steady cash accruals and no major debt-funded capex plan.

Weaknesses

Working capital intensive nature of operation

The working capital management of the group is marked by high gross current asset (GCA) days of 140 days in FY2020 (Prov.) as compared to 148 days in the previous year. This high GCA day is mainly on account of increase in receivables to 91 days in FY 2020 (Prov.) as compared to 89 days in the previous year. The increase in debtor days is mainly due to receivables during the year-end, which coincided with the nation-wide lockdown. The inventory days of the group stood comfortable at 28 days in FY2020 (Prov.) as against 34 days in the previous year. The GCA days of the group is also due to the high current asset of Rs. 28.40 crore in FY2020 (Prov.).

Moderate profitability margin

The operating profitability margin of the group has declined in FY2020 (Prov.) and stood moderate at 4.72 per cent as compared to 6.32 per cent in the previous year. This deterioration in operating profitability margin is on account of increase in raw material price during the period along with a dip in sales realisation. The net profitability margin of the group has also declined to 2.20 per cent in FY2020 (Prov.) as compared to 3.42 per cent in the previous year. Acuité believes the profitability margin of the group will be sustained at current levels over the medium term on account of well-established presence in the market of Chhattisgarh.

Rating Sensitivity

- Scaling up of operations while improving their profitability margin
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity marked by comfortable net cash accruals of Rs.17.74 crore as against Rs.0.67 long term debt obligations in FY2020 (Prov.). The cash accruals of the group are estimated to remain in the range of around Rs. 12.92 crore to Rs. 18.74 crore during 2021-23 against Rs. 1.05 crore in FY2021, Rs.2.62 crore in FY2022 and Rs.0.85 crore in FY2023 of long term debt obligation respectively. The working capital management of the group is marked by Gross Current Asset (GCA) days of 140 days in FY2020 (Prov.). The bank limit of the group has been 95 percent utilized during the last eight months ended in October 2020. Further, the group maintained unencumbered cash of Rs.0.78 crore in FY2020 (Prov.). The current ratio of the group also stood comfortable at 1.40 times in FY2020 (Prov.). Moreover, the group has also been sanctioned a COVID-19 emergency credit line of Rs.2.50 crore. The said loan is to be repaid over a period of 2 years, including 6 months of moratorium. Hence, Acuité believes that this short term funding will further ease the liquidity position of the group. The group had also availed of loan moratorium till the end of August 2020 for CC. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of steady cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes that group's business risk profile is expected remain 'Stable' on the back of extensive promoter's experience in the iron and steel industry and healthy 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 or substantial elongation in their working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	454.78	440.06
PAT	Rs. Cr.	10.00	15.06
PAT Margin	(%)	2.20	3.42
Total Debt/Tangible Net Worth	Times	0.67	0.94
PBDIT/Interest	Times	3.63	3.31

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	184.65	195.27
PAT	Rs. Cr.	1.64	9.56
PAT Margin	(%)	0.89	4.89
Total Debt/Tangible Net Worth	Times	4.53	4.64
PBDIT/Interest	Times	2.26	3.17

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

Infomerics Ratings, vide its press release dated Nov 03, 2020 had denoted the rating of Rama Udyog Private Limited as 'IVR BB+' 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>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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