April 18, 2023

Rama Cylinders Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Cash credit	13.75	23.75	[ICRA]A (Stable); reaffirmed/assigned
Short term- Non-fund-based - Others	67.50	150.00	[ICRA] A2+; reaffirmed/assigned
Total	**81.25**	**173.75**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in the established market position of Rama Cylinders Private Limited (RCPL) in the domestic high-pressure seamless-steel cylinder manufacturing segment. The ratings draw comfort from the company's diversified customer mix with reputed industry players, including key auto original equipment manufacturers (OEMs) and city gas distribution (CGD) entities.

The ratings continue to take into account RCPL's comfortable capital structure and debt coverage indicators, given its limited reliance on external borrowings and healthy cash accruals. ICRA notes the sharp increase in gas prices in FY2023, following the geopolitical tensions, which narrowed the pricing difference between CNG and other fuels and reduced the cost competitiveness of CNG usage, resulting in sales decline for the company during the fiscal. However, the demand prospects of CNG are expected to improve in the near term with the adoption of a new pricing policy which will keep the gas prices under check and improve the penetration of CNG, going forward. The Government's thrust to ramp up CNG infrastructure throughout the country would also support the demand prospects of gas cylinders and cascades.

Moreover, the increasing offtake by CGD entities and the growing acceptance of CNG vehicles in the country as a more cost-effective option are also expected to drive demand for the company's products. Notwithstanding the cost competitiveness of CNG, the growing acceptability of electric vehicles poses risks to the demand for CNG vehicles. Nevertheless, the proportion of CNG vehicles, EVs and hybrids is likely to materially increase, and the two technologies are expected to co-exist in the near to medium term. The ratings further consider the high entry barriers in the industry on account of its regulated nature, stringent quality standards and the highly capital-intensive operations.

ICRA notes that the company is currently undertaking a capex of ~Rs. 50 crore, primarily to expand its capacity by 10,000 units per month, which is expected to commercialise from Q2 FY2024. The capex is being funded entirely through internal accruals and promoter loan. The expanded capacity would allow the company to further grow its scale, supporting healthy demand from OEMs and CGD entities in the near term, driven by the increased penetration of CNG. The improved scale of operations would also result in healthy cash accruals, while maintaining a comfortable capital structure and debt coverage metrics and keeping the dependence on borrowings limited.

The ratings are, however, constrained by the exposure of the company's profitability to the variations in foreign exchange rates and prices of key raw materials (i.e. seamless steel tubes). Also, the company's operations remain working capital intensive due to the high inventory levels. Further, the company's performance remains susceptible to the timely availability of raw materials as a large part of these are imported, though the high amount of inventory maintained by the company mitigates the risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that RCPL will continue to benefit from its established presence in the domestic cylinder market and a reputed clientele.

Key rating drivers and their description

Credit strengths

Established presence of company, reputed customer profile and diversified customer mix- RCPL is one of the leading players in the domestic market with a healthy market share and enjoys established relationships with reputed market players. The company has been manufacturing high-pressure seamless-steel cylinders for nearly two decades with an installed capacity of 6,60,000 units per annum (anticipated to be increased to 7,80,000 units per annum from Q2 FY2024). The long-standing presence of the company has enabled it to establish relationship with key domestic automobile OEMs such as Bajaj Auto Limited, Tata Motors Limited, etc. apart from the local retro fitment sector. The company also supplies CNG storage cascades to CGD players, including Indraprastha Gas Limited, Gas Authority of India Limited, Hindustan Petroleum Corporation Limited, among others. The company's customer concentration risks are moderate with the top five customers contributing 25-35% to the overall sales in recent years.

Healthy demand prospects of CNG likely to support demand- The prices of CNG have remained volatile in the last few months on account of increase in the price of natural gas, narrowing the pricing difference between CNG and other fuels and impacting the competitiveness of CNG as a fuel. However, the recent regulatory measures, including the adoption of a pricing policy to keep gas prices under check and the regulatory push to expand the CNG network, will support healthy demand for CNG in the near to medium term and improve the penetration of CNG across the country. Further, the favourable economics of using CNG vis-à-vis other fuels have increased the popularity of CNG vehicles, fuelling the demand from leading OEMs to include more CNG variants in their product portfolio.

Strong financial profile – The company's capital structure remained robust with total debt of Rs. 15 crore on its books as on March 31, 2023 [P]. The TD/OPBDITA, interest coverage and NCA/TD remained comfortable at 0.2 times, 15.3 times and 320%, respectively, in FY2023[P]. The company is currently expanding its capacity, funded through internal accruals and promoter debt. RCPL is expected to generate stable cash flows in the coming years with a scale-up in its overall business, supported by favourable demand prospects for CNG and increase in its production capacity, thus keeping the company's reliance on debt low with its capitalisation and coverage metrics likely to remain comfortable.

High entry barriers – The entry barriers in the high-pressure seamless steel cylinder market are high owing to the stringent regulations prescribed by the Petroleum and Explosive Safety Organisation that require extensive testing and clearance at multiple levels. RCPL, along with other players in the industry, maintains high levels of raw material inventory which makes the industry highly capital-intensive, further enhancing the entry barriers.

Credit challenges

Working capital intensive operations – The company generally offers a credit period of 30-45 days to some of its customers, including auto OEMs, while sales against advances is made to others. RCPL maintains high inventory on account of i) imported raw material (seamless steel tubes) having a lead of 4-5 months, and ii) the requirement of around 1-month inventory of finished goods due to different sizes and specifications. The imports by the company are generally backed by letters of credit with usance period of up to 90 days and only 5-10% of the order value is given as advance against these imports. ICRA notes that the operations of the company are working capital intensive largely on account of the longer inventory holding period which remains high at 211 days as on March 31, 2023[P]. However, the credit period offered by the suppliers helps the company manage its working capital intensity to some extent.

Profitability exposed to adverse fluctuations in foreign currency – As a major portion of the raw material purchases for the company are through imports, the profitability is vulnerable to forex rate fluctuations. Exports provide a natural hedge to the company to some extent. The company also hedges 50% of its net forex exposure through forward contracts with forex cover taken for additional risk on need basis and the company may hedge up to 100% of its forex exposure, as per the requirements, in anticipation of the currency fluctuation. However, it continues to be exposed to the forex rate movements to some extent.

Operations exposed to risks of timely availability of key raw material and fluctuation in its prices – The primary raw material for the company is seamless steel tubes, which form 50-55% of the total cost of the product. RCPL, like other players in the domestic industry, imports the seamless tubes from China, which involves long lead times of several months. The operations, therefore, remain susceptible to the timely availability of seamless tubes and the fluctuation in its prices. However, the company maintains an inventory of around four-five months, mitigating the uncertainty related to availability to some extent.

Demand from auto OEMs susceptible to better cost economics of using other fuels and increased penetration of electric vehicles - The company derives nearly one-third of its total revenues from the supply of cylinders to auto OEMs. However, the demand from these auto OEMs remains susceptible to the cost effectiveness of using CNG vis-à-vis other fuels and can be impacted in case of a sharp rise in gas prices. Further, CNG vehicles face competition from the growing acceptability of electric vehicles that also enjoy fiscal incentives. However, the two technologies are expected to co-exist in the near future due to multiple limitations associated with using electric vehicles such as availability of EV charging network, swapping infrastructure and operational savings against other fuels.

Liquidity position: Adequate

The company has adequate liquidity with healthy cash accruals, supported by free cash and cash equivalents of Rs. 8 crore as on March 31, 2023 [P]. The company's utilisation of bank limits has remained minimal and it thus has the financial flexibility on account of the unutilised fund-based limits of around Rs. 20 crore; however, the utilisation of non-fund-based limits has been around 40% given the nature of the contracts. The company has capex planned of nearly Rs. 10-12 crore during the current fiscal, to be funded through internal accruals. Further, the company has minimal debt servicing obligations, further supporting its liquidity position.

Rating sensitivities

Positive factors – A significant increase in the company's scale and profitability while maintaining a healthy capital structure could lead to an upgrade.

Negative factors – Pressure on the ratings could emerge if the company undertakes a sizeable debt-funded capital expenditure, or if there is a stretch in the working capital cycle. A further reduction in the operating margin and cash accruals, driven by the adverse movement of raw material prices, and the inability of the company to pass on the impact to the end customers may also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Rama Cylinders Private Limited (RCPL), incorporated in 2004, is promoted by Mr. Vashu J. Ramsinghani and his son Mr. Amit V. Ramsinghani. RCPL is engaged in the production of high-pressure seamless steel cylinders and allied products. It has two manufacturing facilities, both in Gujarat, one at Bhimasar with an annual production capacity of 420,000 units and the other at Kandla SEZ with an annual production capacity of 240,000 units. The company's equity is largely held by the promoter and promoter group (75%), while the remaining 25% of the equity is held by private equity firms.

Key financial indicators (audited)

Rama Cylinders Private Limited (standalone)	FY2021 (A)	FY2022 (A)	FY2023 (Provisional)
Operating income (Rs. crore)	345.8	542.1	460.0
PAT (Rs. crore)	25.3	53.0	40.0
OPBDIT/OI (%)	11.9%	14.1%	13.3%
PAT/OI (%)	7.3%	9.8%	8.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.2
Total debt/OPBDIT (times)	0.1	0.4	0.2
Interest coverage (times)	22.2	30.0	15.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 18, 2023	July 28, 2022	May 07, 2021	-
1	**Fund based – Cash credit**	Long Term	23.75	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-
2	**Non-fund based- Others**	Short Term	150.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Non-fund based - Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Fund-based - Cash credit**	-	-	-	23.75	[ICRA]A (Stable)
NA	**Short term - Non-fund-based - Others**	-	-	-	150.00	[ICRA] A2+

Source: *Rama Cylinders Private Limited*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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