January 12, 2024

Rama Steel Tubes Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+; assigned for the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	105.00	125.00	[ICRA]BBB (Stable); rating upgraded from [ICRA]BBB- (Stable) and assigned for enhanced amount
Short -term – Non-Fund based - ILC/FLC and BG	60.00	60.00	[ICRA]A3+; rating upgraded from [ICRA]A3
Total	**165.00**	**185.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade factors in the expected improvement in the credit metrics of Rama Steel Tubes Limited (RSTL) in FY2024 and FY2025 on the back of a healthy uptick in the operating profit margin (OPM) as well as equity infusion of ~Rs. 62 crore in FY2024. The OPM improved to 5.5% in H1 FY2024 from 3.8% in FY2023, led by an increase in the share of value-added products (leading to higher contribution), softening of raw material prices and improved manufacturing efficiency. The same is expected to sustain in FY2024 and FY2025 owing to focus on value-added products and proposed backward integration plans. The interest coverage is also expected to improve to 3-4 times in FY2024 and FY2025 from 2.5 times in FY2023. Also, the fund infusion is expected to reduce the leverage (Total Debt/OPBDITA) significantly in FY2024 and FY2025 compared to ~3.7 times reported in FY2023.

The ratings continue to favourably factor in the experienced management and its long track record of operations in the steel pipes industry. The ratings also consider its diversified and strategically located manufacturing facilities, resulting in savings of logistics costs and healthy relationships with key customers, marked by diversified distribution channels. It has a varied product mix, which includes a wide range of pipes and tubes (such as black pipes, galvanised pipes, telecommunication transmission tower and substation structure) along with cold rolled coils and sheets, and structural engineering products. ICRA also notes that the company is setting up a new plant in Raipur with an expected capital outlay of Rs. 200 crore (including land cost), to be incurred in the next three years. The company does not envisage to take any major term loans for the project, thus limiting the total debt of the company in the near-to-medium term. Also, post the expansion, the company will benefit from increased scale and other operational synergies, which are expected to strengthen its overall operating profile. Nonetheless, the company will be subject to project execution risk, and it would remain a key monitorable.

The ratings are, however, constrained by RSTL's exposure to risks arising from volatile raw material prices and intense competition. The ratings are also tempered by RSTL's high working capital intensive nature of operations owing to high inventory requirements and high collection period, primarily affected due to disruption in operations in the Nigerian step-down subsidiary. Further, modest profitability and working capital debt to fund the working capital requirement resulted in modest coverage indicators, although the same improved in H1 FY2024.

The Stable outlook on RSPL's long-term rating reflects ICRA's opinion that the company will continue to benefit from its established position in the organised sector in the ERW pipe segment with increasing focus on value-added products.

Key rating drivers and their description

Credit strengths

Improvement in profit margins along with coverage metrics in H1 FY2024; likely to sustain in FY2024 – In H1 FY2024, while the company's revenues declined to Rs. 515.8 crore (against Rs. 587.3 crore in H1 FY2023) owing to a fall in the selling price of finished goods amid steel price correction, its OPM increased to 5.5% from 2.4% in H1 FY2023. The healthy uptick in OPM was supported by softening of raw material prices and increase in contribution of value-added products and improved manufacturing efficiency, among others. With healthy improvement in the operating profits, the coverage metrics improved, as reflected in the interest cover of 2.6 times as on September 30, 2023 (against interest coverage of 1.8 times on September 30, 2022). ICRA expects the company's OPM to sustain at a healthy level, going forward, led by focus on value-added products and proposed backward integration plans to set up cold rolling mill strip galvanising plant at Lepakshi and Khopoli units.

Adequate capitalisation profile supported by recent equity infusion – The equity infusion of Rs. 157 crore in FY2023 and FY2024 is expected to reduce the leverage (TD/OPBDITA) to 2-2.3 times in FY2024 from 3.2 times in FY2022. The company's ongoing capex plans are supported by healthy equity infusion, resulting in low reliance on new term loan to fund the expansion. Post the capex, the company is expected to benefit from increased scale and other operational synergies, which would further strengthen its overall operating profile.

Geographically diversified manufacturing presence and product profile – The company has a total production capacity of 2,94,000 MTPA as on September 30, 2023. It has two manufacturing facilities at Sahibabad, Uttar Pradesh with an installed capacity of 60,000 MTPA. Its manufacturing facility at Khopoli, Maharashtra has an installed capacity of 1,62,000 MTPA (enhanced from 1,32,000 MTPA) and the one at Anantpur, Andhra Pradesh has an installed capacity of 72,000 MTPA. The company is further planning to set up a new plant in Raipur, Chhattisgarh to cater to the market in the eastern region of India. However, the company remains exposed to project execution risks in terms of any time and cost over-run.

Established track record of operations and experienced management – RSTL is involved in manufacturing and trading of steel tubes and galvanised iron pipes for more than four decades now. The long track record of the company in the black steel pipes and galvanised steel pipes industry has facilitated a strong market presence, which has supported the healthy expansion of its operations over the years.

Credit challenges

Working capital intensive operations – The company, being a steel convertor, is exposed to the volatility in steel prices on account of a lag in price adjustments following fluctuations in prices of hot-rolled coils, in addition to the inventory maintenance. RSTL's working capital intensive nature of operations owing to high inventory requirements and long collection period resulted in significant reliance on working capital borrowings. Further, the working capital requirement increased due to disruption in the Nigerian operations amid geo-political issues.

Moderate coverage indicators – Modest profitability and working capital debt to fund the working capital requirement resulted in modest coverage indicators, despite improvement witnessed in the current year. While the company's profitability is expected to improve in FY2024, the overall coverage indicators would continue to remain modest.

Intense competition in the industry – The company's profitability remains susceptible to the competition prevailing in the market, given the fragmented nature of the steel pipes industry. The ERW pipes market is inherently competitive with the presence of several large established as well as many unorganised players. However, long presence in the market for four decades provides comfort.

Liquidity position: Adequate

RSPL's liquidity position remains **adequate** corroborated by sizeable free cash and bank balance of ~Rs. 33 crore as on September 30, 2023. ICRA expects that the company's cash accruals and equity infusion would be adequate to fund its capex requirements as well as the scheduled debt repayment obligations of ~Rs. 5 crore each in FY2025 and FY2026. The liquidity profile also captures the expected improvement in working capital in FY2024 and FY2025, supported by adequate cushion in the form of undrawn working capital limits.

Rating sensitivities

Positive factors – The ratings could be upgraded if it demonstrates a sustained improvement in its revenue along with improved profitability, liquidity and coverage metrics. Specific triggers for ratings upgrade would be an interest coverage ratio above 4.0 times on a sustained basis at the consolidated level.

Negative factors – The ratings could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company, resulting in a deterioration in debt protection metrics. Further, any larger-than-expected debt-funded capex or higher working capital requirement could trigger ratings downgrade. Specific credit metric for ratings downgrade includes an interest coverage ratio below 2.5 times on a sustained basis at the consolidated level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit rating Methodology Iron & Steel
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RSTL, details of which have been enlisted in Annexure II.

About the company

Incorporated in 1974 by Mr. Harbans Lal Bansal and currently managed by his son, Mr. Naresh Kumar Bansal and grandson Mr. Richi Bansal, RSTL manufactures and trades steel tubes and pipes and galvanised iron pipes. RSTL's product range includes MS ERW black pipes of 15 mm-200 mm diameter and galvanised iron pipes of 15 mm-150 mm NB in light, medium and heavy sizes. RSTL has a subsidiary in the UAE and a step-down subsidiary in Nigeria, strengthening the company's presence in global markets. In July 2022, the company further acquired a stake in M/s Ashoka Infrasteel and Hagar Mega Mart Pvt. Ltd. RSTL has four manufacturing facilities located at Sahibabad (Uttar Pradesh), Khopoli (Maharashtra) and Anantpur (Andhra Pradesh) with a total production capacity of 2,94,000 MTPA as on September 30, 2023. The company is planning to set up a new plant in Raipur, Chhattisgarh to cater to the markets in the eastern region of India.

Key financial indicators (audited)

RSTL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	768.2	1,336.8	515.8
PAT	28.0	25.8	13.2
OPBDIT/OI	5.5%	3.8%	5.5%
PAT/OI	3.6%	1.9%	2.6%
Total outside liabilities/Tangible net worth (times)	1.8	1.6	1.1
Total debt/OPBDIT (times)	3.2	3.7	2.5
Interest coverage (times)	3.9	2.5	2.6

*Source: Company, ICRA Research; *Unaudited; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 12, 2024	Jan 04, 2023	-	-
1	Cash Credit	Long term	125.00		[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2	ILC/FLC and BG	Short term	60.00		[ICRA]A3+	[ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short -term – Non-Fund based - ILC/FLC and BG	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 I: 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	-	-	-	125.00	[ICRA]BBB (Stable)
NA	Short -term – Non-Fund based - ILC/FLC and BG	-	-	-	60.00	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rama Steel Tubes Limited	100% (rated entity)	Full Consolidation
Lepakshi Tubes Private Limited	100%	Full Consolidation
RST International Trading FZE	100%	Full Consolidation
RST Industries Limited	100%	Full Consolidation
Pir Panchal Constructions Pvt. Lt.d	25%	Equity Method
Hagar Mega Mart Private Limited	50%	Equity Method
M/s Ashoka Infrasteel	51%	Full Consolidation

Source: Company

ANALYST CONTACTS

Jayanta Roy
+91 33 71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 61693328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 111
sumit.jhunjhunwala@icraindia.com

Prerna Agarwal
+91 124 4545380
prerna.agarwal1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

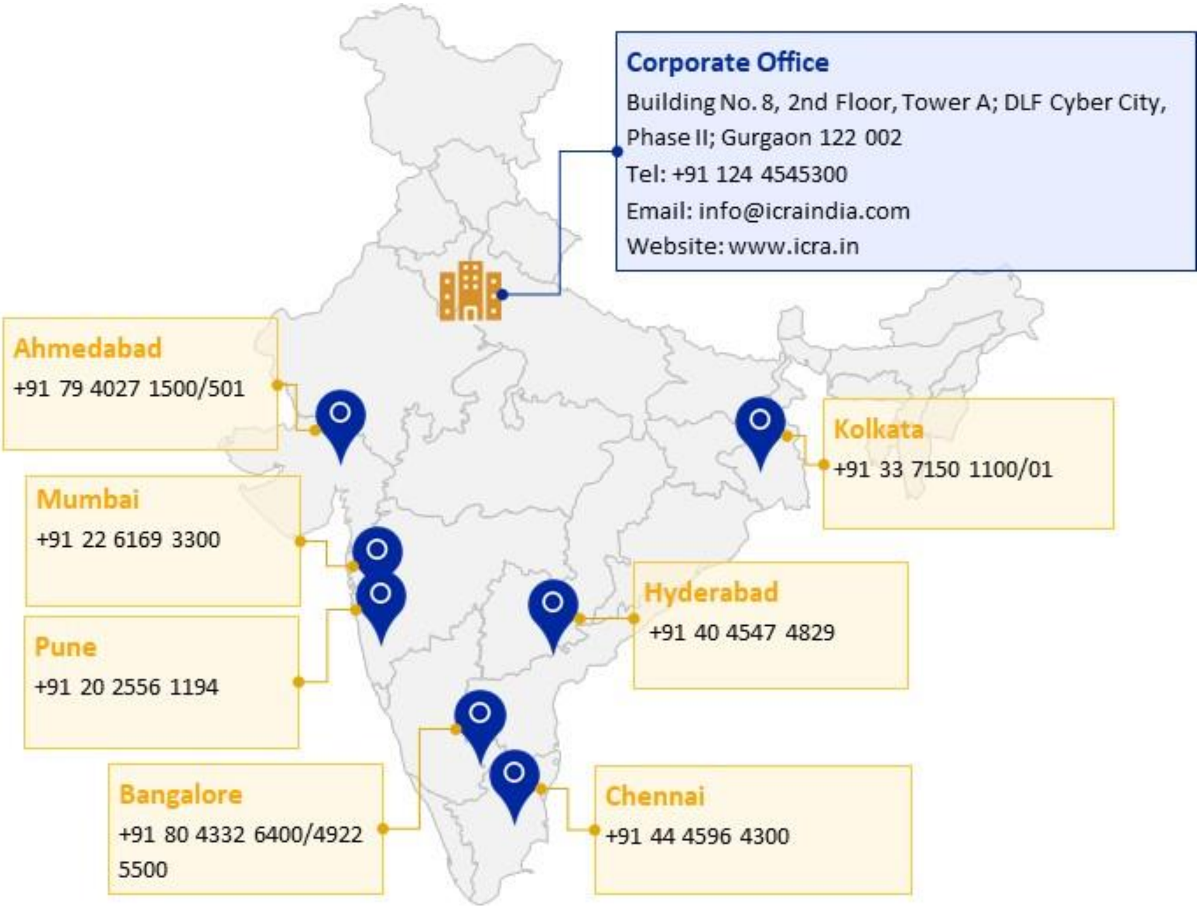
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.