

Press Release

Rama Power & Steel Private Limited

September 16, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	20.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Total	20.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Rama Power & Steel Private Limited (RPSPL) derives comfort from its experienced promoters, established brand, strategic location of the plant with backward and forward integration initiatives and semi-integrated nature of operations of the Rama group. The rating also factors in improvement in the financial performance of the Rama group in FY19 and Rama group's satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics with minimal debt repayment obligations. However, the rating strengths are partially offset by volatility in the prices of raw materials and finished goods, high competition, working capital intensive nature of operations and cyclical nature in the steel industry. Growth in scale of operations with improvement in profit margin, gearing levels, working capital management and demand supply situation in the steel industry are the key rating sensitivities.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter

The promoters of the Rama group, Goyal family have around five decades of cumulative experience in the iron and steel industry. Currently, Mr. Sanjay Goyal (Managing Director) is at the helm of affairs of the company with support from the other director, Mr. Suresh Goyal (his brother) and a team of experienced professionals.

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Established Brand

The group markets its Thermo Mechanically Treated (TMT) bars under the brand “Rama TMT”. The group has been able to establish its brand over the course of a decade with a focussed advertising campaign to raise brand awareness and recall. The company is well established in Chhattisgarh and UP region.

Strategic location of plant with backward and forward integration initiatives

The sponge iron manufacturing plant of Rama Udyog Private Limited (RUPL) is located at Siltara Industrial area in the Raipur of Chhattisgarh and is in close proximity to the manufacturing plant of RPSPL, manufacturing MS Billets and TMT bars. RUPL sells its product at arm-length price to RPSPL. The distance between two plants is less than 30 Km. RUPL procures raw materials locally within Chhattisgarh, which is mineral rich state and where various other steel players with upstream products are operating. Accordingly, proximity to the source of raw materials & end user market provides a competitive edge to the Rama Group.

Semi-integrated nature of operations of the group

RUPL is at the lowest end of the value chain with manufacturing of sponge iron and billets. RUPL then sells the same to RPSPL which is in the middle of the value chain and manufacture TMT Bars and supply onward to RKSK Steels India Pvt. Ltd. (RKSK) which finally sells it to the end user. RUPL derives majority (around 60-70%) of its sales from RPSPL and RPSPL sells around 70% of its products to RKSK. Further, the group also has a captive waste heat recovery power plant of 8MW which also supports overall power requirement of the group.

Improvement in financial performance in FY19

The Rama group on a combined basis has witnessed moderation by ~4% in its total operating income in FY19 following a growth in FY18 by~22%. However, despite moderation in total operating income the profitability of the group witnessed robust improvement in FY19. With addition of billet manufacturing plant along with a captive waste heat recovery plant under its fold the EBIDTA margin of the Rama group has improved. On a standalone basis, RPSPL has achieved a CAGR of ~22% during FY17-FY19 with a y-o-y growth of about ~13% in

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FY19 driven by improved market demand for TMT bars. However, the profit margins remained thin over the past years with moderation in FY19.

Satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics with minimal debt repayment obligations

The Rama group on a combined basis, has satisfactory financial risk profile marked by no long-term debts except a term loan for purchasing a plot and unsecured loans from the directors and associates. Treating the unsecured loans (Rs.17.07 crore outstanding as on March 31, 2019) as neither debt nor equity, the long-term debt equity and the overall gearing ratio of the group stood satisfactory as on March 31, 2019. The interest coverage ratio remained comfortable in FY19 driven by significant improvement in absolute EBIDTA. On a standalone basis, the capital structure of the company remained comfortable as on March 31, 2019 (Treating the unsecured loans from the promoters as neither debt nor equity). The interest coverage ratio of the company also remained comfortable in FY19. Further, the Total debt (excluding the unsecured loans from the promoters) to GCA remained moderate at in FY19.

Key Rating Weaknesses

Volatility in the prices of raw materials and finished goods

Major raw-materials required for the group are iron-ore and coal for manufacturing of sponge iron. Raw-material accounted for around 80-90% of total cost of sales in the last three years. The group lacks backward integration for its basic raw-materials (iron ore and coal) and has to procure the same from open market. RUPL procured coal mainly from local traders and mines for majority of its non-coking coal requirement and the iron ore is procured from NMDC along with local procurements. Currently RPSPL is procuring majority of its billets and sponge requirement (~70%) from RUPL and balance from outside market. Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the group is susceptible to fluctuation in raw-material prices. On the other hand, the finished goods are also volatile and dependent upon economic cycles and global demand supply scenarios.

High competition

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The Rama group mainly operates in Chhattisgarh and nearby states, which is a hub of steel plants and comprise many steel players with limited product differentiation in the downstream steel segment. Intense competition restricts the bargaining power of the companies and profitability.

Working capital intensive nature of operations

The operations of the Rama group are working capital intensive as the group needs to procure its main raw materials i.e. iron ore and coal mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to high competition in the industry. Besides, it also needs to maintain raw material inventory for uninterrupted production. Accordingly, its working capital cycle remain moderate in the range of 75-90 days over the past three years (FY17-FY19). However, the working capital requirements are largely funded by unsecured loans from the promoters. On a standalone basis, the average utilisation of its working capital limit of RPSPL remained satisfactory during the past 12 months ended on April, 2019.

Cyclical in the steel industry

Further, the steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector.

Analytical Approach: For arriving at the ratings, INFOMERICS analytical team has combined the audited financials of Rama Power & Steel Pvt Ltd (RPSPL), RKSK Steel India Private Ltd (RKSK), and Rama Udyog Pvt Ltd (RUPL) referred as Rama Group as these companies have a common management team and operational & financial linkages.

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

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Liquidity

The Rama group on a combined basis has adequate liquidity marked by healthy cash accruals against negligible repayment obligations along with adequate cushion from its unutilised bank limits. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. On a standalone basis, the liquidity of the company is expected to remain adequate with no long-term debt repayment in FY20 and satisfactory cash accruals with no planned capex or availment of long-term debt.

About the Company

RPSPL, incorporated in May 2008 in Raipur (Chhattisgarh) is a part of the Rama group formed by the Goyal family of Raipur under the leadership of Mr. Ram Kumar Goyal along with his sons, Mr. Sanjay Goyal and Mr. Suresh Goyal. The group is predominantly engaged in manufacturing and trading of steel products through its various companies.

Financials (Combined):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Combined	Combined
Total Operating Income	451.96	432.29
EBITDA	10.24	26.62
PAT	-12.33	15.07
Total Debt	83.55	95.52
Tangible Net worth	87.31	102.23
EBITDA Margin (%)	2.27	6.16
PAT Margin (%)	-2.72	3.46
Overall Gearing Ratio (x)	0.75	0.77

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CARE Ratings has moved the rating of RPSPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 13, 2019.

India Ratings has moved the rating of RPSPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 14, 2018.

Any other information: Nil

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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Bank Facilities –Cash Credit	Long Term	20.00	IVR BBB- / Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	20.00	IVR BBB-/Stable