

Press Release

Rama Udyog Private Limited

September 16, 2019

Ratings

| Instrument / Facility | Amount (Rs. crore) | Ratings | Rating Action |
|------------------------------|-------------------------------|--|--------------------------|
| Long Term Bank Facilities | 25.00 | IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook) | Assigned |
| Total | 25.00 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Rama Udyog Private Limited (RUPL) 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 cyclicity 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.

Infomerics Valuation And Rating Pvt. Ltd.

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, RUPL’s top line improved by ~85% in FY19 due to improved capacity utilization and higher price

Infomerics Valuation And Rating Pvt. Ltd.

realisations, with stabilization in its operations, the company post profit in FY19 and earned a PAT of Rs.9.56 crore (Net loss of Rs. 14.73 crore in FY18) with a PAT margin of 4.89%.

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 moderate as on March 31, 2019 (Treating the unsecured loans from the promoters as neither debt nor equity). High overall gearing was mainly on account of net loss incurred in FY18, which led to erosion of net worth. During FY19 with stabilization of operations and healthy accruals the debt protection parameters has also improved considerably.

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.

Infomerics Valuation And Rating Pvt. Ltd.

High competition

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 RUPL remained satisfactory during the past 12 months ended on April 2019.

Cyclicality 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 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)

Infomerics Valuation And Rating Pvt. Ltd.

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, RUPL has adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its negligible repayment obligations with no planned capex or avilment of long-term debt.

About the Company

RUPL, incorporated in 2016 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):

(Rs. crore)

| For the year ended* / As On | 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 RUPL 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.

Any other information: Nil

Infomerics Valuation And Rating Pvt. Ltd.

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 | 25.00 | IVR BBB- / Stable Outlook | - | - | - |

*Letter of Credit of Rs.10.00 crore and Bank Guarantee of Rs.1.00 crore is a sublimit of CC.

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Aakanksha N. Banthia

Tel: (033) 46022266

Email: abanthia@infomerics.com

Name: Mr Avik Podder

Tel: (033) 46022266

Email: apodder@infomerics.com

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.

Infomerics Valuation And Rating Pvt. Ltd.

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 | - | - | - | 25.00 | IVR BBB-/Stable |

*Letter of Credit of Rs.10.00 crore and Bank Guarantee of Rs.1.00 crore is a sublimit of CC.