

Rating Rationale

January 06, 2023 | Mumbai

Ratnamani Metals and Tubes Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'

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Rating Action

Total Bank Loan Facilities Rated	Rs.2200 Crore
Long Term Rating	CRISIL AA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank facilities of Ratnamani Metals and Tubes Limited (Ratnamani).

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The rating reaffirmation factors in healthy business performance of Ratnamani during fiscal 2022 and first half of fiscal 2023, wherein revenue increased by 37% and 52% on-year respectively. This was supported by strong realisation growth and healthy volume growth, driven by robust ordering from the oil and gas sector. The earnings before interest taxes depreciation and amortisation (EBITDA) per tonne also saw an increase from Rs 18,690 per tonne in fiscal 2021 to Rs 22,878 per tonne in the first half of fiscal 2023, boosted by a rise in volumes of value-added products, i.e., stainless steel pipes. With current order book of over Rs 3,000 crore, the full year revenue is expected at more than Rs 3,800 crore along with healthy EBITDA per tonne, supported by further ramping up of enhanced capacity in stainless steel pipes.

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The company is incurring Rs 170 crore capital expenditure (capex) for forward integration in the stainless-steel seamless pipes segment, which is expected to be completed by fiscal 2024 end. Further, it is incurring Rs 160 crore capex towards capacity addition of 100,000 tonne per annum (TPA) in carbon steel helical submerged arc welded (HSAW) pipes segment, which is expected to be completed by fiscal 2025 end. This capex will be funded entirely from cash accrual. Financial risk profile should remain strong, aided by healthy cash accrual and the absence of any large, debt-funded capex over the medium term.

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The ratings continue to reflect the strong business risk profile of Ratnamani, supported by market leadership in the stainless-steel tubes and pipes (SSTP) segment, diversified revenue, and a healthy financial risk profile as reflected in low gearing and comfortable debt protection metrics. These strengths are partially offset by large working capital requirement and susceptibility to slowdown in end-user industries.

Analytical Approach

CRISIL Ratings has consolidated the business and financial risk profiles of Ratnamani and its wholly owned subsidiary, Ratnamani Inc (based in the US), because of strong operational and financial linkages between them.

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strong business risk profile, supported by diversified revenue and market leadership in the SSTP segment: Ratnamani has a diversified product profile comprising SSTP and carbon steel pipes, which are used in various end-user industries such as power, oil and gas, chemicals, water, and refineries. The company is one of the largest players in the SSTP segment in India and has steadily enhanced stainless-steel capacity to 61,500 TPA. The company also has presence in carbon steel longitudinal submerged arc welding (LSAW)/HSAW and electric resistance welded (ERW) pipes and has steadily enhanced its capacity to 5,10,000 TPA, which may further be boosted to 610,000 TPA by fiscal 2025 end.

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In October 2022, Ratnamani acquired 53% stake in Ravi Technoforge Pvt Ltd (a high precision forged and turned bearing rings manufacturer). The balance 27% will be done in 2024 and rest 20% in 2027. The total cost for acquisition of 53% was Rs 98 crore. This acquisition will help the company in expanding its business into a new product line catering to existing customers.

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Existing strong market position planned capex in the pipeline and inorganic growth taken up will maintain a strong business risk profile going forward as well.

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Healthy operating performance: Operating performance has continued to be comfortable, wherein the company had acquired the necessary approvals and developed expertise to manufacture high-end application products, allowing it to earn above-industry-average profits. The company has further planned capex of stainless-steel pipes (forward integration), which will maintain these earnings.

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It also maintains strong relationships with customers by producing customised and quality products. The company has also been able to diversify its revenue base through exports over the past few years. The company is expected to maintain comfortable average EBITDA margin of 15-18% over the medium term, which would vary depending on the value-added requirements and product mix.

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Robust financial risk profile: Ratnamani's financial risk profile is driven by healthy capital structure

and robust debt protection metrics. The capital structure and debt protection metrics remained comfortable with gearing being less than 0.2 time and interest coverage over 20 time in the last 5 fiscals. The company's financial risk profile is expected to remain comfortable in the medium term as well with no further debt-funded capex planned.

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Weaknesses:

Large working capital requirement:À The working capital cycle may remain stretched owing to the nature of business undertaken. The company generally maintains a higher inventory due to the company's policy to cover its raw material requirement on a back-to-back basis, based on receipt of orders. Gross current assets were 212 days and 205 days as on March 31, 2022, and September 30, 2022.

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Susceptibility to slowdown in end-user industries:À Demand for SSTP depends on end-user industries such as oil and gas, fertilisers, power, and water and irrigation. Any slowdown in these segments could weaken the demand for steel pipes, thereby affecting the operating performance. However, diversified products profile and non-dependence on a single customer have kept this risk low in the past.

Liquidity: Strong

Cash accrual is projected at more than Rs 400 crore per annum in fiscals 2023 and 2024, against term debt obligation of Rs 20-50 crore. The fund-based limit of Rs 149 crore was utilised negligibly over the 12 months through October 2022. Cash and cash equivalents (including mutual fund) of around Rs 200 crore as of September 2022 provides strong liquidity buffer. Internal cash accrual and unutilised bank limit will be sufficient to meet incremental working capital and capex requirements over the medium term.

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Environment, social and governance (ESG) profile

The ESG profile of À RatnamaniÀ supports its credit risk profile.

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The À steel pipe manufacturersÀ have a high impact on environment primarily driven by high power consumption done during their manufacturing process. The sector also has a significant social impact because of its large workforce across its own operations and value chain partners, and due to its nature of operations affecting local community and health hazards involved. À RatnamaniÀ has been focusing on mitigating its environmental and social risks.

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Key ESG highlights:

- The company meets approximately 30% of the overall power required for operations from renewable energy.
- As per the annual report of fiscal 2022 of the company, Ratnamani has achieved 32,916 MT reduction in Carbon Emissions
- The company has taken various community initiatives through CSR projects and claims to have impacted 4,525 lives.
- The company's governance structure is characterized by 57% of its board comprising independent directors, dedicated investor grievance redressal system and extensive disclosures.

There is growing importance of ESG among investors and lenders. The commitment of À RatnamaniÀ to the ESG principle will play a key role in enhancing stakeholder confidence given access to domestic capital market.

Outlook: Stable

Ratnamani will maintain its leadership position in the SSTP segment and benefit from its diversified revenue.

Rating Sensitivity factors

Upward factors

- Healthy increase in revenue base driven by volume growth, while maintaining above-industry profitability along with stable capital structure
- Maintaining return on capital employed over 20% on a sustainable basis.

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Downward factors

- Prolonged downturn in industry leading to subdued operating performance
- Debt to EBITDA (earnings before interest, taxes, depreciation, and amortisation) above 1.75 times
- Weakening of liquidity due to increase in working capital requirement or any large, debt-funded capex or acquisition

About the Company

Ratnamani, incorporated in 1983, manufactures a wide range of welded and seamless SSTP (installed capacity of 61,500 TPA) and carbon steel pipes (5,10,000 TPA) of LSAW, HSAW, circumferential seam submerged arc welded, and ERW pipes. The company is promoted by Mr Prakash Sanghvi, who is its chairman and managing director.

Key Financial Indicators

As on/for the period ended March 31		2022	2021
Revenue	Rs crore	3139	2298
Profit after tax (PAT)	Rs crore	323	276
PAT margin	%	10.3	12.0
Adjusted debt/adjusted networth	Times	0.7	0.10
Interest coverage	Times	24.52	19.21

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -À Details of Instrument'À in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -À including those that are yet to be placed -À based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are

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For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash credit\$	NA	NA	NA	174	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Apr-24	38	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Dec-26	50	NA	CRISIL AA/Stable
NA	Letter of credit & bank guarantee^	NA	NA	NA	863	NA	CRISIL A1+
NA	Letter of credit & bank guarantee@@	NA	NA	NA	474	NA	CRISIL A1+
NA	Letter of credit & bank guarantee#	NA	NA	NA	150	NA	CRISIL A1+
NA	Letter of credit & bank guarantee@	NA	NA	NA	326	NA	CRISIL A1+
NA	Letter of credit & bank guarantee*	NA	NA	NA	75	NA	CRISIL A1+
NA	Letter of credit & bank guarantee**	NA	NA	NA	50	NA	CRISIL A1+

@ Inter-changeable to fund based limits to the extent of Rs. 125 Crores

@@ Inter-changeable to fund based limits to the extent of Rs. 100 Crores

* Inter-changeable to fund based limits to the extent of Rs. 5 Crores

** Inter-changeable to fund based limits to the extent of Rs. 50 Crores

\$ Inter-changeable with export packing credit/packing credit in foreign currency

^ Inter-changeable with buyer's credit/supplier's credit

Inter-changeable with fund based /export packing credit/packing credit in foreign currency / buyer's credit/supplier's credit , bills discounting

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Ratnamani Inc	Full consolidation	Operational and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022A		2021A		2020A		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	262.0	CRISIL AA/Stable	^	--	^	--	14-10-21	CRISIL AA/Stable	22-07-20	CRISIL AA/Stable	CRISIL AA/Stable
^	^	^	--	^	--	^	--	29-09-21	CRISIL AA/Stable	^	--	--
Non-Fund Based Facilities	ST	1938.0	CRISIL A1+	^	--	^	--	14-10-21	CRISIL A1+	22-07-20	CRISIL A1+	CRISIL A1+
^	^	^	--	^	--	^	--	29-09-21	CRISIL A1+	^	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit&	53	ICICI Bank Limited	CRISIL AA/Stable
Cash Credit&	10	IDBI Bank Limited	CRISIL AA/Stable
Cash Credit&	25	YES Bank Limited	CRISIL AA/Stable
Cash Credit&	60	HDFC Bank Limited	CRISIL AA/Stable
Cash Credit&	26	Axis Bank Limited	CRISIL AA/Stable
Letter of credit & Bank Guarantee@	150	Citibank N. A.	CRISIL A1+
Letter of credit & Bank Guarantee!	326	YES Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee~	75	IndusInd Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee<	50	Kotak Mahindra Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee>	474	Axis Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee&&	498	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee&&	240	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank			

Guarantee&&	125	IDBI Bank Limited	CRISIL A1+
Term Loan	50	HDFC Bank Limited	CRISIL AA/Stable
Term Loan	38	Citibank N. A.	CRISIL AA/Stable

This Annexure has been updated on 06-Jan-2023 in line with the lender-wise facility details as on 03-Aug-2021 received from the rated entity.

& - Inter-changeable with export packing credit/packing credit in foreign currency

@ - Inter-changeable with fund based /export packing credit/packing credit in foreign currency / buyer's credit/supplier's credit , bills discounting

! - Inter-changeable to fund based limits to the extent of Rs. 125 Crores

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> - Inter-changeable to fund based limits to the extent of Rs. 100 Crores

&& - Inter-changeable with buyer's credit/supplier's credit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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