



SMERA RATINGS LIMITED

Yatin Steels India Private Limited (YSIPL)**Rating
Rationale****October 5, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Letter of Credit	399.00*	SMERA A2 (Assigned)
Proposed Fund/Non Fund Based Facilities	36.00	SMERA BBB+/Stable/SMERA A2 (Assigned)

* includes sublimit of Rs.47.00 crores for cash credit

SMERA has assigned ratings of **'SMERA BBB+ (read as SMERA triple B plus)** and **SMERA A2 (read as SMERA A two)** to the above mentioned bank facilities of Yatin Steels India Private Limited (YSIPL). The outlook is **'Stable'**. The ratings derive comfort from the company's long track record of operations, experienced management, healthy revenue growth and moderate financial risk profile. However, the ratings are constrained by the company's thin and uneven profit margins and susceptibility of the profit margins to fluctuations in forex rates and steel prices.

YSIPL, a Mumbai-based company engaged in the trading of iron and flat steel products took over the existing business of Yatin Steels (proprietorship concern) established in 1988. The company is headed by Mr. Yatin Khanna (Director) who has experience of over four decades in the steel trading industry.

YSIPL's revenue reflects a healthy year-on-year growth. The three year CAGR from FY2011-12 to FY2014-15 stands at 27 per cent. The revenue base of the company is strong at Rs.1,252.37 crore for FY2014-15, around 37 per cent growth over the previous year. For the six months ended September 2015, the company earned revenue of Rs. 679.58 crore.

YSIPL's financial risk profile is moderate marked by gearing (total outside liabilities to tangible networth) of 4.50 times as on March 31, 2015. The interest coverage ratio stands healthy at 3.03 times in FY2014-15. The company provides credit of around 120 days to its customers. The operations are supported by purchasing steel against Letter of Credit of 180 days. The working capital facility is almost fully utilised. The company maintains 20 per cent margin money in the form of fixed deposits and any utilisation above the sanctioned limit is against 100 per cent cash margin.

YSIPL operates on thin profit margins on account of the trading nature of the business. With 40 per cent of the total purchase being met through imports, the company is exposed to fluctuations in forex rates. Thus, operating margins have been uneven due to volatility in forex and steel prices. EBITDA margins have nevertheless improved in FY2014-15 over FY2013-14 from 1.69 per cent to 2.17 per cent. The net profit margin has also improved from 0.69 per cent to 1.31 per cent. The net profit is supported by interest received on fixed deposits.

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**Outlook: Stable**

SMERA believes that YSIPL will continue to benefit over the medium term from its established presence in the steel trading industry. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues while improving margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in YSIPL's profit margins on account of adverse forex fluctuations.

Rating Sensitivity Factors

- Sustained growth while achieving stable margins
- Working capital management

About the Company

YSIPL was incorporated in 2004 to take over the existing business of Yatin Steels which was set up in 1988. The company, promoted by Mr. Yatin Khanna is engaged in the trading of iron and steel products mainly hot and cold rolled flat products and galvanised sheets that find application in consumer durables, pipes and tubes, railways, among others.

For FY2014-15, YSIPL reported profit after tax (PAT) of Rs.16.39 crore on operating income of Rs. 1,252.37 crore as compared with PAT of Rs.6.30 crore on operating income of Rs.915.87 crore for FY2013-14.

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