

Press Release

Steel House (SH)

02 February, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.54.00 Cr (enhanced from Rs.44.62 crore)
Long Term Rating	SMERA BBB/Stable (Assigned and Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB' (read as SMERA triple B)** on the Rs.44.62 crore bank facilities and assigned long term rating of '**SMERA BBB' (read as SMERA triple B)** on the Rs.9.38 crore bank facilities of Steel House (SH). The outlook is '**Stable**'.

SH, established in 1984, is a Bangalore-based partnership firm engaged in the trading of steel products. The day-to-day operations are managed by its Chief Executive Officer, Mr. Vishal Gupta.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations: The partners of the firm Mr. Mahendra Gupta and Mr. Vishal Gupta possess more than three decades of experience in trading of steel.

Reputed and diversified clientele: The firm caters to reputed and diversified clientele with more than 200 customers mainly belonging to the auto components and control panel structure industry.

Above average financial risk profile: The financial risk profile is above average marked by adjusted gearing of 1.73 times as on 31 March, 2016 as compared to 1.86 times in the previous year. For arriving at the gearing, unsecured loan from promoters has been considered as quasi equity as the same is subordinated to bank debt. Further, the debt protection metrics is comfortable as interest coverage ratio and debt service coverage ratio both stood at 2.86 times for FY2015-16 as compared to 2.34 times in the previous year. Also, the TOL/TNW (total outside liability to total net worth) stood at 2.04 times as on 31 March, 2016 as compared to 2.10 times as on 31 March, 2015.

Weaknesses:

Working capital intensive operations: The operations are moderately working capital intensive as reflected in the gross current assets (GCA) days of 105 for FY2015-16 and 103 days for FY2014-15. These moderate GCA days emanate from the inventory days of 53 and debtor days of 53 for FY2016. However, the average bank limit utilisation stood at ~91.00 per cent for the past six months ended 30th September, 2016.

Inherent cyclicity in the steel industry: The firm's revenue and profitability are susceptibility to the inherent cyclicity in the steel industry and volatility in steel prices.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the firm.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that SH will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while improving capital structure and debt coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity

SH, established in 1984, is a Bangalore-based partnership firm engaged in the trading of steel products.

For FY2015-16, the firm reported operating income of Rs.260.30 crore as compared with Rs.214.95 crore in the previous year. Further, as informed by the management SH reported operating income of Rs.207.25 crore (provisional) for the period April, 2016 to December, 2016.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Overdraft	LT	26.00^	SMERA BBB/Stable (Reaffirmed)	-	-	14 Oct, 2015	SMERA BBB/Stable (Assigned)	-	-
Cash Credit (under electronic dealer finance system)	LT	18.00 (enhanced from Rs. 10.00 crore)	SMERA BBB/Stable (Reaffirmed)	-	-	14 Oct, 2015	SMERA BBB/Stable (Assigned)	-	-
Bills Discounting	LT	2.50	SMERA BBB/Stable (Reaffirmed)	-	-	14 Oct, 2015	SMERA BBB/Stable (Assigned)	-	-
Term Loan I	LT	1.12	SMERA BBB/Stable (Reaffirmed)	-	-	14 Oct, 2015	SMERA BBB/Stable (Assigned)	-	-
Term Loan II	LT	3.36 (reduced from Rs. 5.00 crore)	SMERA BBB/Stable (Reaffirmed)	-	-	14 Oct, 2015	SMERA BBB/Stable (Assigned)	-	-
Proposed Fund Based	LT	3.02	SMERA BBB/Stable (Assigned)	-	-	-	-	-	-

^ Includes sublimit of Rs. 17.00 crore for working capital demand loan.

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Overdraft	N.A	N.A	N.A	26.00^	SMERA BBB/Stable (Reaffirmed)
Cash Credit (under electronic dealer finance system)	N.A	N.A	N.A	18.00 (enhanced from Rs. 10.00 crore)	SMERA BBB/Stable (Reaffirmed)
Bills Discounting	N.A	N.A	N.A	2.50	SMERA BBB/Stable (Reaffirmed)
Term Loan I	N.A	N.A	December, 2016	1.12	SMERA BBB/Stable (Reaffirmed)
Term Loan II	N.A.	N.A	May, 2019	3.36 (reduced from Rs. 5.00 crore)	SMERA BBB/Stable (Reaffirmed)
Proposed (Fund Based)	N.A	N.A	N.A	3.02	SMERA BBB/Stable (Assigned)

^Includes sublimit of Rs. 17.00 crore for working capital demand loan.

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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