

Press Release

Steel House

May 08, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs.71.00 Cr.
Long Term Rating	SMERA BBB+/Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA BBB+** (read as SMERA triple B plus) from '**SMERA BBB** (read as SMERA triple B) on the Rs.71.00 crore bank facilities of Steel House. The outlook is '**Stable**'.

Established in 1984, Steel House is a Bangalore (Karnataka) based partnership firm is engaged in the trading of flat steel products such as hot rolled coil, cold roll sheets, galvanized coils, pre-painted steel among others. Steel House operates as 'non-exclusive' authorised dealer of JSW Steels Limited for the markets of Andhra Pradesh, Karnataka and Tamilnadu. The firm also provides value added services such as 'cut to size' as per customer's requirements. The firm has an installed capacity of 10,000 tonnes per month to provide value added services at its facility in Jigani (Karnataka). The day-to-day operations are managed by Mr. Vishal Gupta.

The rating upgrade reflects the improvement in Steel House's business risk profile marked by sustained improvement in its revenues and profitability margins. The ratings also factors in comfortable financial risk profile marked by comfortable gearing, total outside liabilities-to-net worth (TOL/TNW) and interest coverage ratio. SMERA believes that Steel House will sustain the business and financial risk profile over the medium term, supported by healthy corporate client base with repeat business orders, efficient working capital management and improvement in its net worth.

Key rating drivers

Strengths

Revenue growth supported by experienced management: The Partners, Mr. Mahendra Gupta and Mr. Vishal Gupta are seasoned players in the Iron and Steel industry having an experience of four decades and two decades, respectively. The partners longstanding experience helped Steel House in securing repeated business orders from corporate clients for the value added products of 'cut-to-size' and wide product range within flat products. Steel House client segment spans across automotive, engineering, agricultural equipment manufacturers among others. The diversified revenue segment helped Steel House in reporting a compound annual growth rate of about 19 percent over four years through FY2018, with revenues of about Rs.360.00 crore on provisional basis in FY2018. Further, the increasing demand and infrastructure development in the Southern Region also fueled the revenue growth. SMERA believes that Steel House will continue to gain from the partners' long-standing presence in the Bengaluru market.

Comfortable financial risk profile: The financial risk profile is comfortable marked by moderate gearing and total outside liabilities to total net worth (TOL/TNW) levels of 1.33 and 1.65 times respectively as of March 31, 2017. TOL/TNW improved to 1.65 times in FY2017, from 2.04 times in FY2016 owing to increasing scale of operations and profitability. Steel House is implementing a moderate capex for increasing its processing capacity of 'customised product offering' to 15,000 tonnes per annum which is expected to be operational by around September 2018. Despite the ongoing capex, the gearing and TOL/TNW are expected to be at moderate levels of about 1.3 times and 1.5 times respectively over the medium term, owing to moderate accretion to reserves and no dividend plans. The debt protection metrics are comfortable with interest coverage ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) at 3.74 times and 0.31 times respectively for FY2017.

Moderate working capital intensive operations: The working capital operations remain moderate, as reflected in the Gross Current Assets (GCA) of 117 days as on March 31, 2017 due to moderate debtor and inventory days. Debtor days stood at 65 as on March 31, 2017 since, the firm offers trade credit of up to 60 days to its customers.. Inventory levels ranged from 49 days to 53 days during FY2015-FY2017, since the company holds traded goods inventory of up to 45 days to service customers on time. SMERA believes that with diversified client base, the working capital cycle is expected to be at similar levels over the medium term.

Weaknesses

Risks inherent in the partnership nature of the firm: Steel House status as a partnership firm exposes it to the risk of capital withdrawal by the partners, which might lead to a highly leveraged capital structure. Any significant withdrawal of the capital by the Partners will be a key rating sensitivity factor for the firm.

Highly fragmented, cyclical and competitive Iron & Steel industry: The Iron & Steel industry comprises numerous unorganised players at different levels of the value chain. In addition to intense competition, the firm witnesses low value addition, which leads to low profitability margins. The inherent cyclical nature of the steel industry exposes the firm to adverse steel price fluctuations and inventory loss. However, the firm has been able to mitigate this risk to a large extent by passing on the costs to its customers.

Analytical approach

SMERA has considered standalone business and financial risk profiles of Steel House.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	296.33	260.30	214.95
EBITDA	Rs. Cr.	22.99	16.57	12.03
PAT	Rs. Cr.	14.98	9.24	5.48
EBITDA Margin	(%)	7.76	6.36	5.60
PAT Margin	(%)	5.05	3.55	2.55
ROCE	(%)	24.41	20.92	18.50
Total Debt/Tangible Net Worth	Times	1.33	1.73	1.86
PBDIT/Interest	Times	3.74	2.86	2.34
Total Debt/PBDIT	Times	2.34	3.01	3.51
Gross Current Assets (Days)	Days	117	105	102

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Trading Sector - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
02-Feb-2017	Secured Overdraft	Long Term	26.00^	SMERA BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	18.00 (enhanced from Rs. 10.00 crore)	SMERA BBB/Stable (Reaffirmed)
	Bills Discounting	Long Term	2.50	SMERA BBB/Stable (Reaffirmed)
	Term Loan	Long Term	1.12	SMERA BBB/Stable (Reaffirmed)
	Term Loan	Long Term	3.36 3.36 (reduced from Rs. 5.00 crore)	SMERA BBB/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	3.02	SMERA BBB/Stable (Assigned)
14-Oct-2015	Secured Overdraft	Long Term	26.00^	SMERA BBB/Stable (Assigned)
	Cash Credit	Long Term	10.00	SMERA BBB/Stable (Assigned)
	Bills Discounting	Long Term	2.50	SMERA BBB/Stable (Assigned)
	Term Loan	Long Term	1.12	SMERA BBB/Stable (Assigned)
	Term Loan	Long Term	5.00	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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	*37.00	SMERA BBB+/Stable

SMERA Ratings Limited

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					(Upgraded)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA BBB+/Stable (Upgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	10.50	SMERA BBB+/Stable (Upgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BBB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA BBB+/Stable (Upgraded)

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

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ABOUT SMERA

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