

Press Release

Steel House

July 17, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 71.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating to '**ACUITE BBB+**' (read as ACUITE triple B plus) on the Rs.71.00 Crore bank facilities of STEEL HOUSE (SH). The outlook is '**Stable**'.

Established in 1984, Steel House is a Bangalore (Karnataka) based partnership firm engaged in the trading of flat steel products such as hot rolled coil, cold roll sheets, galvanized coils and pre-painted steel among others. SH operates as 'non-exclusive' authorised dealer of JSW Steels Limited for the markets of Andhra Pradesh, Karnataka and Tamil Nadu. The firm also provides value added services such as 'cut to size' as per customer's requirements. The firm has increased its installed capacity to 20,000 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.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Steel House to arrive at the rating.

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 SH in securing repeated business orders from corporate clients for the value added products of 'cut-to-size' and wide product range within flat products. The firm's client segment spans across automotive, engineering and agricultural equipment manufacturers among others. The diversified revenue segment helped Steel House in reporting a compound annual growth rate of about 13 percent over four years through FY2019, with revenues of about Rs. 379.39 crore in FY2019 (Provisional). Also, the increasing demand and infrastructure development in the Southern Region also fueled the revenue growth.

Acuité believes that Steel House will continue to gain from the partners' long-standing presence in the market.

Moderate financial risk profile

The financial risk profile of the group is moderate marked by moderate tangible net worth, average debt protection metrics and moderate gearing (Debt-Equity).

The tangible net worth of the group stood at Rs. 52.88 crore as on March 31, 2019 (Provisional) as against Rs. 45.46 crore as on March 31, 2018. It includes Rs. 8.49 crore of unsecured loans from promoters considered as quasi-equity.

The company has followed a conservative financial policy as reflected by its peak gearing of 1.73 times over the last four years through FY2018-19 (Provisional). The gearing of the company has further improved to 1.62 times as on March 31, 2019 (Provisional). Total debt of Rs. 85.65 crore as on March 31,

2019 (Provisional) comprises Long term loan of Rs. 13.95 crore, Unsecured loans from Promoters of Rs.1.16 crore and short term working capital facilities of Rs.70.55 crore. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 2.18 times as on March 31, 2019 (Provisional) as against 1.72 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood moderate at 3.14 times for FY2019 (Provisional) as against 3.89 times for FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.19 times as on March 31, 2019 (Provisional).

Acuité believes that the financial risk profile will continue to remain adequate over the medium to long term due to growing scale of operations and moderate debt protection measures.

Weaknesses

Fluctuating margins

The margins of the company are fluctuating with 6.45 percent operating margins in FY2019 (Provisional) as against 7.11 percent in FY2018 and 7.76 percent in FY2017. This is mainly on account of fluctuations in the steel prices. Also, the PAT margins have been declined to 3.59 percent in FY2019 (Provisional) as against 4.57 percent in FY2018 and 5.05 percent in FY2017.

Risks inherent in the partnership nature of the firm

SH's 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.

Liquidity Position:

The liquidity position is adequate with respect to its high net cash accruals vis-à-vis its low term debt obligations. The current ratio stood at 1.45 times as on March 31, 2019(Provisional). It has maintained unencumbered cash and bank balances of Rs. 0.05 crore as on March 2019. The liquidity position will remain adequate over the near to medium term due to the absence of capital expenditure plans in the near term.

Outlook: Stable

Acuité believes that Steel House will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoters' extensive industry experience. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations and profitability while maintaining comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in working capital cycle or higher than expected debt-funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	337.33	296.33	260.30
EBITDA	Rs. Cr.	23.97	22.99	16.57
PAT	Rs. Cr.	15.43	14.98	9.24
EBITDA Margin	(%)	7.11	7.76	6.36
PAT Margin	(%)	4.57	5.05	3.55
ROCE	(%)	21.08	24.41	38.22
Total Debt/Tangible Net Worth	Times	1.43	1.33	1.73
PBDIT/Interest	Times	3.89	3.74	2.86
Total Debt/PBDIT	Times	2.72	2.34	3.01
Gross Current Assets (Days)	Days	117	117	105

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of the Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
08-May-2018	Secured Overdraft	Long Term	37.00* (enhanced from Rs. 26.00 crore)	ACUITE BBB+/ Stable (Upgraded)
	Bills Discounting	Long Term	1.50	ACUITE BBB+/ Stable (Upgraded)
	Term Loans	Long Term	10.50	ACUITE BBB+/ Stable (Upgraded)
	Working Capital Demand Loan	Long Term	4.00	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long Term	18.00	ACUITE BBB+/ Stable (Upgraded)
02-Feb-2017	Secured Overdraft	Long Term	26.00*	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long Term	18.00 (enhanced from Rs. 10.00 crore)	ACUITE BBB/ Stable (Reaffirmed)
	Bills Discounting	Long Term	2.50	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	1.12	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	3.36 (reduced from Rs. 5.00 crore)	ACUITE BBB/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	3.02	ACUITE BBB/ Stable (Assigned)
14-Oct-2015	Secured Overdraft	Long Term	26.00*	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB/ Stable (Assigned)
	Bills Discounting	Long Term	2.50	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	1.12	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE 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. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	43.10* (enhanced from Rs. 37.00 crore)	ACUITE BBB+/ Stable (Reaffirmed)
Bill discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB+/ Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.41	ACUITE BBB+/ Stable (Reaffirmed)
Working Capital Demand loan	Not Applicable	Not Applicable	Not Applicable	2.99	ACUITE BBB+/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB+/ Stable (Reaffirmed)

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

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About Acuité Ratings & Research:

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