

Press Release

Steel House

September 28, 2020



Rating Reaffirmed and Withdrawn

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 of '**ACUITE BBB+**' (read as ACUITE triple B plus) on the Rs.71.00 crore bank facilities of Steel House. The outlook is '**Stable**'.

Further, Acuité has withdrawn the long-term rating of '**ACUITE BBB+**' (read as ACUITE triple B plus) on the Rs.2.99 crore bank facilities of Steel House.

Established in 1984, Steel House (SH) 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' authorized 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 15,000 tonnes per month to provide value-added services at its facility in Jigani (Karnataka). Mr. Vishal Gupta manages day-to-day operations.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SH to arrive at this rating.

Key Rating Drivers

Strengths

- **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 firm has established operations since 1984 having a vintage of operations in iron and steel industry.

The long-standing experience of partners helped SH in securing repeated 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 5 percent over four years through FY2020 Prov, with revenues of about Rs. 347.11 crore (Provisional) in FY2020.

Acuité believes that Steel House will continue to benefit from the partner's long-standing presence in the market.

- **Moderate financial risk profile**

The financial risk profile is moderate, marked by moderate tangible net worth, low gearing and healthy debt protection matrices. It has tangible Networth of Rs. 57.77 crore Prov in FY2020 as against Rs. 54.20 crore in FY2019. This includes quasi capital of Rs. 9.99 crore as on March 31, 2020 (Prov.) which are subordinated to bank debt. Hence, Acuité has considered it as quasi-equity. The company follows a conservative leverage policy with the peak gearing of 1.56 times in the past four year's time (from FY2017 to FY2020). The gearing improved to 1.32 times Prov in FY2020 as against 1.56 times in FY2019. The total debt of the company as on March 31, 2020 is Rs. 76.37 crore which includes Rs. 8.97 crore of term loans and Rs. 67.39 crore of the working capital facility. Total outside liabilities to total tangible Networth (TOL/TNW) stands at 1.34 times Prov as on March 31, 2020 and interest coverage ratio of 2.83 times Prov in FY2020.

Steel House has implemented its capex in FY2019 for increasing its processing capacity of 'customised

product offering' to 15,000 tonnes per annum. Despite the capex, the gearing and TOL/TNW are at moderate levels of about 1.56 times and 2.10 times as on March 31, 2019 respectively owing to moderate accretion to reserves. The fixed asset turnover ratio stood at 13.06 times Provisional for FY2020. The Debt/EBITDA stood moderate at 3.37 times Provisional in FY2020 as against 3.51 times in FY2019.

Acuité believes that the growth in revenue, sustenance of its profitability margins and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

Weaknesses

- **Fluctuating revenues and profitability margins**

The firm shows fluctuating revenues as reflected by operating of Rs.347.11 crore Provisional in FY2020 as against Rs.379.12 crore in FY2019 and Rs.337.33 crore in FY2018. The decline in revenue in FY2020 Provisional is majorly on account of a decline in steel prices and COVID-19 pandemic affecting the revenue generation during March, 2020.

The profitability margins of the company are fluctuating as reflected by 6.53 percent Provisional in FY2020 as against 6.34 percent FY2019 as against 7.11 percent in FY2018. The decline in the margin in FY2019 was majorly on account of increase in the steel coils and sheets prices which are ~93% purchased from JSW Steel. However, with an increase in the price of steel led the company to book higher margins at 6.53 percent in FY2020 provisional.

- **Capital withdrawal risk**

SH is exposed to the risk of capital withdrawal considering its partnership constitution. Acuité has observed capital withdrawal of Rs.7.91 core Provisional in FY2020. The net worth of the firm stood at Rs.57.77 crore (Provisional) as on March 31, 2020, as against Rs.54.20 crore as on March 31, 2019.

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in the working capital cycle to 130-150 days

Material Covenants

None

Liquidity position: Adequate

SH has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 14.6 crore – Rs. 17.8 crore during the last three years through 2018-20, while the maturing debt obligations were in the range of Rs. 1.2-1.4 crore over the same period. The working capital facility is 90 percent utilized over the last six months, ended in July, 2020. The current ratio is 1.61 times (Provisional) as on March 31, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that Steel House will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's 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 a steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in the working capital cycle or higher than expected debt-funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	347.11	379.12
PAT	Rs. Cr.	11.02	13.34
PAT Margin	(%)	3.17	3.52
Total Debt/Tangible Net Worth	Times	1.32	1.56
PBDIT/Interest	Times	2.83	3.16

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

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Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Jul-2019	Secured Overdraft	Long Term	43.10	ACUITE BBB+/Stable (Reaffirmed)
	Bills Discounting	Long Term	1.50	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BBB+/Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.99	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB+/Stable (Reaffirmed)
08-May-2018	Secured Overdraft	Long Term	37.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Bills Discounting	Long Term	1.50	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	10.50	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Working Capital Demand Loan	Long Term	4.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Cash Credit	Long Term	18.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
02-Feb-2017	Secured Overdraft	Long Term	26.00	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	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	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)

***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	37.00*^	ACUITE BBB+ /Stable (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB+ /Stable (Reaffirmed)
Term Loan	Jul, 2018	Not Applicable	Aug, 2022	5.41	ACUITE BBB+ /Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.99	ACUITE BBB+ (Withdrawn)
Sales Invoice Finance/Channel Financing	Not Applicable	Not Applicable	Not Applicable	9.09^	ACUITE BBB+ /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB+ /Stable (Reaffirmed)

*Sublimit – WCDL of Rs.31.00 crore of CC

^ACC+SIF limit not to exceed Rs.49.00 crore.

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About Acuité Ratings & Research:

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