

Press Release
Steel House

January 06, 2023

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	78.90	ACUITE A- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	78.90	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE Triple B Plus**) on the Rs. 78.90 Cr bank facilities of Steel House (SH). The outlook is '**Stable**'.

Rationale for upgrade

The rating upgrade takes into account the continuous improvement in the operating and financial performance of the firm over the last three years. The firm's operating income grew at compounded annual growth rate of 16.38 percent over the last three year as it recorded revenues of Rs.547.13 crore in FY2022 as against Rs.353.31 crore in FY2021 and Rs.347.11 crore in FY2020. The growth is driven by both higher realisations and volumes. The operating profitability of the firm also recorded an uptrend as it stood at 8.95% in FY2022 as against 8.42% in FY2021 and 6.49% in FY2020. The firm's revenue and operating profitability stood at Rs. 380.82 crore and 6.76% respectively for the period ended October, 2022.

In line with the improvement in operating performance, the financial performance of the firm also recorded an improvement marked by reducing gearing and improving debt protection metrics. The overall gearing of the firm reduced to 0.61 times in FY2022 from 0.98 times in FY2021. The Total Outside Liabilities to tangible net-worth ratio of the firm stood at 0.62 times as on March 31, 2022. Driven by improving profitability and reducing total debt, the interest coverage of the firm improved to 6.86 times in FY2022 as against 5.23 times in FY2021. With no major debt funded capital expenditure planned over the medium term, Acuite expects the financial risk profile of the firm to remain healthy.

The rating remains constrained by the working capital intensive nature of operations and inherent risk of capital withdrawal for partnership firms. Going forward, ability of the firm to improve its scale of operations while maintaining its profitability margins and capital structure and restricting the elongation of its working capital cycle will remain a key rating monitorable.

About the Company

Established in 1984, Steel House is a Bangalore (Karnataka) based partnership entity engaged in the trading of flat steel products. The entity also provides value added services such as 'cut to size' as per customer's requirements. The entity has installed capacity of 15,000 tons

per month to provide value added services at its facility in Jigani (Karnataka). The day-to-day operations are managed by its partner Mr. Vishal Gupta, son of founding partner Mr. Mahendra Kumar Gupta.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record and 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 and includes entities like Mitsubishi Lelvator India Private Limited, Buhler India Limited and Miltech Machinery Private Limited majority of whom have been engaged with the firm for over a decade.

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

Improvement in Operating Performance

The operating performance of the revenue improved in FY2022 as the total revenue of the firm stood at Rs.547.13 crore for FY2022 as against Rs.353.31 crore in FY2021 registering a growth of 53 percent year on year. Further, the firm has already achieved revenue of Rs. 380.82 crore till October 2022. The improvement in the revenue is on account of new orders and higher realisation. At the same time the operating margin of the firm remained stable at 8.95% in FY2022 against 8.42% in FY2021. The PAT margin stood at 7.16% in FY2022 as against 7.05% in FY2021. Also, SH deals with diversified customer base in various segments including automobile, heavy engineering ,electrical equipment, medical equipment , textile machineries and top ten customers contribute less than 20 percent of total revenue.

Acuite believes that the firm will be able to maintain the operating performance over the medium term on account of the diversified customer base and stable operating profit margin.

Healthy Financial Risk Profile

SH has a healthy financial risk profile with low gearing, moderate net worth and comfortable coverage ratios. The net worth of the firm stood at Rs.103.95 crore in FY2022 as against Rs.81.19 crore in FY2021. The gearing of the firm is low and further reduced to 0.61 times in FY2022 as against 0.98 times in FY2021. The total outside liabilities to total net worth ratio stood below unity at 0.62 times in FY2022 against 0.97 times in FY2021. The coverage ratios are comfortable, the interest coverage ratio stood at 6.86 times for FY2022 as against 5.23 times for FY2021. The DSCR stood at 4.42 times for FY2022 as against 4.29 times for FY2021. The total debt outstanding of Rs.62.95 crore as on March 31, 2022 includes working capital borrowings of Rs.58.73 crore and term loan obligations of Rs.4.22 crore.

Acuite believes that the financial risk profile of the firm will continue to remain healthy on account of absence of any debt-funded capex plan.

Weaknesses

Working Capital Intensive Nature of Operations

The operations of the company are of working capital-intensive in nature, marked by moderate GCA days of 100 days in FY2022 as against 144 days in FY2021. The moderate GCA

days are on account of moderate receivable days of 65 days in FY2022 as against 97 days in FY2021 and low inventory days of 39 days in FY2022 as against 50 days in FY2021. The entity gives a credit period of 45 to 60 days to its customers and has to pay in advance to its suppliers. The average utilisation of working capital limits is around 58.43% for ten months ended October 2022.

Highly fragmented, cyclical and competitive iron and steel industry

The Iron & Steel industry comprises numerous unorganized 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.

Partnership nature of business

The firm is exposed to risk of capital withdrawal considering its partnership nature of constitution of the business. There have been instances in past for capital withdrawal but the promoters have maintained the funds required for operations of the business. Acuite believes, the management will maintain the capital required for proper functioning of the business.

Rating Sensitivities

- Increase in revenues while improvement in profitability and capital structure
- Elongation in the working capital cycle

Material covenants

None

Liquidity Position Adequate

The liquidity position of the firm is adequate marked by adequate net cash accruals against its maturing debt obligations. The company generated net cash accrual of Rs.41.96 crore in FY2022 against the maturing debt obligations of Rs.3.96 crore. The firm is expected to generate net cash accruals in the range of Rs.51.35 crore – Rs.54.51 crore for the period FY2023-24 while the maturing debt obligations stood in the range of Rs.2.13-3.42 crore for the period. The current ratio stood at 2.69 times as on March 31, 2022. The average utilisation of working capital limits is around 58.43% for ten months ended October 2022. Acuite believes, the liquidity profile of the firm will remain adequate, considering stable cash generation from business and absence of any debt funded capital expenditure in medium term.

Outlook: Stable

Acuite 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	547.13	353.31
PAT	Rs. Cr.	39.16	24.91
PAT Margin	(%)	7.16	7.05
Total Debt/Tangible Net Worth	Times	0.61	0.98
PBDIT/Interest	Times	6.86	5.23

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Oct 2021	Inventory Funding	Long Term	12.00	ACUITE BBB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	37.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	7.99	ACUITE BBB+ Stable (Reaffirmed)
	Bills Discounting	Long Term	1.50	ACUITE BBB+ Stable (Reaffirmed)
	Channel Financing	Long Term	15.00	ACUITE BBB+ Stable (Reaffirmed)
28 Sep 2020	Channel Financing	Long Term	9.09	ACUITE BBB+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.99	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	18.00	ACUITE BBB+ Stable (Reaffirmed)
	Bills Discounting	Long Term	1.50	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BBB+ Stable (Reaffirmed)

	Secured Overdraft	Long Term	37.00	ACUITE BBB+ Stable (Reaffirmed)
17 Jul 2019	Working Capital Demand Loan	Long Term	2.99	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB+ Stable (Reaffirmed)
	Bills Discounting	Long Term	1.50	ACUITE BBB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	43.10	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BBB+ Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bills Discounting	Not Applicable	7.50	Not Applicable	Simple	1.50	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Kotak Mahindra Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	7.00	Not Applicable	Simple	12.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
ICICI Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	7.50	Not Applicable	Simple	15.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Kotak Mahindra Bank	Not Applicable	Secured Overdraft	Not Applicable	7.55	Not Applicable	Simple	37.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Kotak Mahindra Bank	Not Applicable	Term Loan	Aug 17 2017 12:00AM	7.55	Aug 23 2023 12:00AM	Simple	5.41	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Kotak Mahindra Bank	Not Applicable	Term Loan	May 3 2021 12:00AM	7.50	Apr 30 2026 12:00AM	Simple	7.99	ACUITE A- Stable Upgraded (from ACUITE BBB+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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