

Press Release
Steel House
April 05, 2024
Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 78.90 Cr. bank facilities of Steel House (SH). The outlook is '**Stable**'.

Rationale for reaffirmation :

The rating takes into account the improved operating performance and healthy financial profile of SH. The operating income of SH has been consistently growing since the last two years from FY2023 and has been sustained during current year YTD figure till Feb 2024. The firm's revenue stood at Rs.641.98 Cr. in FY2023 implying a growth rate of ~17.34 percent against the previous year's. The operating margins ranged between 8.95-8.37 percent for the last two years ended FY2023. The revenue till February 2024(YTD) stood at Rs. 696.45 Cr. and targeting to close the year by Rs. 740-743 Cr. The ratings are supported healthy financial risk profile of SH with healthy debt protection metrics and minimal gearing. The overall gearing of the Company stood at 0.56 times as on March 31, 2023 as against 0.61 times as on March 31, 2022. The interest coverage ratio stood at 8.27 times in FY2023 as against 6.86 times in FY2022.

The rating remains constrained by the working capital intensive nature of operations and inherent risk of capital withdrawal for partnership firm.

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.

Unsupported Rating

Not applicable

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 marked.

- **Improving scale of operations and stable operating margins**

The revenue of the firm improved to Rs. 641.98 Cr. in FY2023 as against Rs.547.13 Cr. in FY2022 registering a growth of 17.34 percent y-o-y basis. Further, the revenue till February 2024 is Rs. 696.45 Cr. and is targeting Rs. 740-743 Cr. in FY2024. And EBITDA margins are expected to be in range of 8.10 – 8.35 percent in FY2024. The operating margin of the firm stood at 8.37 percent in FY2023 against 8.95 percent in FY2022. The PAT margin stood at 6.99 percent in FY2023 as against 7.16 percent in FY2022. SH deals with diversified customer base in various segments including automobile, heavy Engineering ,Electrical equipment, Medical Equipment , Textile machineries and top ten customers contributing 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**

The financial risk profile of the firm is healthy with healthy net worth, gearing and debt protection metrics. The net worth of the firm improved to Rs.121.80 Cr. and Rs.103.95 Cr. as on March 31, 2023 and 2022 respectively on account of accretion to reserves. The gearing of the firm has slightly improved in FY2023. It stood at 0.56 times as on March 31, 2023 as against 0.61 times as on March 31, 2022. Firm's debt protection metrics is healthy – Interest coverage ratio and debt service coverage ratio stood at 8.27 times and 5.43 times as on March 31, 2023 respectively as against 6.86 times and 4.42 times as on March 31, 2022 respectively. TOL/TNW stood at 0.56 times and 0.62 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 1.26 times as on March 31, 2023 as against 1.28 times as on March 31, 2022. 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 operations**

The working capital management of the SH remained intensive GCA days at 101 days as on March 31, 2023 as against 103 days as on March 31, 2022. The debtor's day stood at 66 days as on March 31, 2023 as against 65 days as on March 31, 2022. Subsequently, the payable period stood at (0) days as on March 31, 2023 as against 1 days as on March 31, 2022 respectively. Further, the average bank limit utilization in the last seven months ended Jan 24 remained at ~81 percent for fund based.

- **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.

Rating Sensitivities

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

Liquidity Position: Adequate

The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.47.42 Cr. in FY2023 as against the Rs.3.42 Cr. repayment obligations same period and expected to generate cash accruals in the range of Rs.39-47 Cr. against CPLTD of Rs.3.78- 3.93 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.16 Cr. as on March 31, 2023. The current ratio of the firm stood at 2.82 times as on March 31, 2023. Acuité believes that firm's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	641.98	547.13
PAT	Rs. Cr.	44.88	39.16
PAT Margin	(%)	6.99	7.16
Total Debt/Tangible Net Worth	Times	0.56	0.61
PBDIT/Interest	Times	8.27	6.86

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <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
06 Jan 2023	Bills Discounting	Long Term	1.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Channel/Dealer/Vendor Financing	Long Term	12.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Channel/Dealer/Vendor Financing	Long Term	15.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Secured Overdraft	Long Term	37.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	5.41	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	7.99	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
18 Oct 2021	Bills Discounting	Long Term	1.50	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB+ Stable (Reaffirmed)
	Channel/Dealer/Vendor Financing	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)

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 avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.50	ACUITE A- Stable Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A- Stable Reaffirmed
Indusind Bank Ltd	Not avl. / Not appl.	Channel/Dealer/Vendor Financing	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.22	ACUITE A- Stable Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	49.00	ACUITE A- Stable Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	03 May 2021	Not avl. / Not appl.	30 Apr 2026	Simple	7.18	ACUITE A- Stable Reaffirmed

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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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