

Press Release

Union Steels

July 14, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 6.60 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 6.60 crore bank facilities of Union Steels. The outlook is '**Stable**'.

The Kerala-based Union Steels, a proprietorship concern was established in 2007 by Mr. Madhu Bansal. The firm trades in steel products such as pipes, fittings, non-ferrous items among others.

Key Rating Drivers

Strengths

- **Experienced management**

The firm was established in 2007. Mr. Bansal possesses a decade of experience in the said line of business.

- **Improvement in operating margins**

The EBITDA margins improved to 3.96 percent in FY2017 (Provisional) from 1.98 per cent in FY2016 on account of fall in raw material cost.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by high gearing of 3.02 times as on 31 March, 2017 (Provisional) as against 4.21 times as on 31 March, 2016. The ICR is moderate at 2.06 times for FY2017 as against 1.54 times for FY2016. The total outside liabilities to tangible networth (TOL/TNW) improved from 4.89 times in FY2016 to 3.16 times in FY2017.

Weaknesses

- **Working capital intensive operations**

Union Steel has working capital intensive operations. The working capital cycle deteriorated from 59 days in FY2016 to 85 days in FY2017 (Provisional) on account of increase in inventory holding from 27 days in FY2016 to 69 days in FY2017 (Provisional).

- **Susceptibility of margins to fluctuations in raw material prices**

The margins are susceptible to fluctuations in the prices of raw material (mainly steel). The raw material cost constitutes ~90 percent of the cost of sales. Any change in the prices may adversely affect margins.

- **Highly fragmented and competitive industry**

The firm operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the firm.

Outlook: Stable

SMERA believes that Union Steels will maintain a stable outlook over the medium term on account of its established presence in the steel trading industry and experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected revenues and cash accruals while maintaining the working capital cycle along with infusion of fresh funds. Conversely, the outlook may be revised to 'Negative' in case the business risk profile weakens resulting in lower than expected revenues or profitability and lower-than-expected net cash accruals leading to significant stretch in the working capital cycle.

About the Rated Entity - Key Financials

In FY2016-17 (Provisional), the firm reported profit after tax (PAT) of Rs.0.87 crore on operating income of Rs.42.72 crore, as compared to PAT of Rs.0.38 crore on operating income of Rs.54.99 crore in the previous year. The net worth stood at Rs.2.47 crore as on 31 March, 2017 against Rs.1.79 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Apr-2016	Cash Credit	Long Term	INR 5	SMERA B+ / Stable
	Cash Credit Proposed	Long Term	INR 1.6	SMERA B+ / Stable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	SMERA B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA B+ / Stable

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