H. M. Steels Limited: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	26.00	SMERA B-/Stable (Assigned)
Working Capital Term Loan	33.50	SMERA B-/Stable (Assigned)
Funded Interest Term Loan	2.58	SMERA B-/Stable (Assigned)
Inland Letter of Credit	2.00	SMERA A4 (Assigned)
Proposed	1.92	SMERA B-/Stable (Assigned)

SMERA has assigned long-term rating of **'SMERA B-' (read as SMERA B minus)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs.66.00 crore bank facilities of H. M. Steels Limited (HMSL). The outlook is **'Stable'**. The ratings are constrained by the weak financial risk profile marked by continuous losses, low interest coverage and low DSCR. The ratings also factor in the working capital intensive business, stretched liquidity profile (bank limit utilisation of 100 per cent from December 2015 to June 2016) and intense competition in the steel products industry. However, the ratings draw support from the established track record and experienced management.

HMSL has achieved operating income of Rs.135.12 crore (Provisional) in FY2015-16, a decline from Rs.137.21 crore in FY2014-15. The company has weak financial risk profile marked by losses of Rs.2.37 crore in FY2014-15, moderate gearing (debt-to-equity) of 1.52 times as on March 31, 2015 and stretched liquidity profile (bank limit utilisation of 100 per cent from December 2015 to June 2016). Moreover, the interest coverage ratio is low and stood at 0.75 times in FY2014-15 with low DSCR of 0.65 times in FY2014-15. The company registered PAT margin of (-1.73) per cent in FY2014-15 as against (-3.77) per cent in FY2013-14. HMSL operates in an intensely competitive segment of the steel products industry.

Outlook: Stable

SMERA believes HMSL will maintain a stable outlook in the medium term owing to the established operations and extensive experience of the promoter in the business. The outlook may be revised to 'Positive' in case of significant improvement in operations, profitability and networth. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile.

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Rating Sensitivity Factors

- Improvement in revenue and profitability profile
- Improving working capital cycle

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

HMSL was incorporated in 1999 by Mr. Megh Raj Garg, Mr. Rajnish Bansal, Mr. Pankaj Bansal, and Mr. Ashok Kumar Singla. The company is engaged in the manufacture of ingots, ERW pipes, MS bars, and galvanised iron pipes that are sold in the domestic market. The manufacturing unit is located in Sirmour (Himachal Pradesh).

For FY2014–15, the company reported losses of Rs.2.37 crore on operating income of Rs.137.21 crore, as compared with losses of Rs.4.57 crore on operating income of Rs.121.00 crore in FY2013–14. The net worth stood at Rs.56.08 crore as on March 31, 2015 against Rs.58.25 crore a year earlier.

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.