

Press Release

H. M. STEELS LIMITED

November 23, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 66.00 Cr.
Long Term Rating	SMERA B- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed 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. The outlook is **'Stable'**.

H M Steels Limited (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 at Sirmour (Himachal Pradesh). These are sold to local traders.

Key Rating Drivers

Strengths

- **Experienced management**

The company was incorporated in 1999 by Mr. Megh Raj Garg, Mr. Rajnish Bansal, and Mr. Pankaj Bansal among others who possess more than a decade of experience in the steel industry. The promoter has established healthy relations with customers.

Weaknesses

- **Highly fragmented and competitive industry, fluctuations in raw material prices**

The company is exposed to intense competition in the highly fragmented steel industry and fluctuations in the prices of raw material (steel).

- **Weak financial risk profile**

HMSL has weak financial risk profile marked by net worth of Rs.50.33 crore as on 31 March, 2017 compared to Rs.53.17 crore as on 31 March, 2016. The gearing (debt-equity) stood at 1.56 times as on 31 March, 2017 compared to 1.46 times as on 31 March, 2016. The total debt of Rs.78.39 crore as on 31 March, 2017 consists of term loan of Rs.31.02 crore, unsecured loans of Rs.21.96 crore and working capital facility of Rs.25.42 crore. The Interest coverage stood at 0.87 times for FY2016-17 compared to 0.84 times for FY2015-16. The DSCR stood thin at 0.43 times for FY2016-17 compared to 0.40 times for FY2015-16. The company has been incurring losses at operating PBT level of Rs.3.05 crore for FY2016-17 compared to Rs.5.65 crore for FY2015-16. The company has also incurred Net loss of Rs.2.78 crore for FY2016-17 as against Rs.2.91 crore for FY2015-16. The net cash accruals stood negative at Rs.1.22 crore for FY2016-17 against Rs.1.54 crore for FY2015-16. Further, SMERA believes that the financial risk profile will continue to remain weak until the company starts making Operating PBT level profits.

- **Working capital intensive operations and stretched liquidity**

HMSL's operations are working capital intensive marked by Gross current assets days of 356 in FY2016-17 (PY: 399). This was on account of high inventory holding days of 79 in FY2016-17 over 48 days in FY2015-16. Further, the debtor receivable days stood high at 228 days in FY2016-17 as against 287 days in FY2015-16. The average cash credit utilisation for six months ended September 2017 stood at 100 percent.

Analytical Approach

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

Outlook: Stable

SMERA believes that 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 network. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17, the company reported profit after tax (PAT) of Rs.(2.78) crore on operating income of Rs.134.45 crore, compared to PAT of Rs.(2.91) crore on operating income of Rs.121.26 crore in FY2015-16. The net worth stood at Rs.50.33 crore as on 31 March, 2017 as against Rs.53.17 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>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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
11-Aug-2016	Cash Credit	Long Term	INR 26	SMERA B- / Stable
	Working Capital Term Loan	Long Term	INR 33.5	SMERA B- / Stable
	Term Loan	Long Term	INR 2.58	SMERA B- / Stable
	Letter of Credit	Short Term	INR 2	SMERA A4
	Proposed Bank Facility	Long Term	INR 1.92	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	26.00	SMERA B- / Stable (Reaffirmed)
Funded Interest Term Loan	Not Applicable	Not Applicable	Not Applicable	2.58	SMERA B- / Stable (Withdrawn)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	27.06	SMERA B- / Stable (Reaffirmed)
Inland Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.94	SMERA B- / Stable (Reaffirmed)

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ABOUT SMERA

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