

## Press Release

H. M. Steels Limited

December 16, 2022



### Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	59.00	ACUITE BB-   Stable   Upgraded	-
Bank Loan Ratings	7.00	-	ACUITE A4   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	66.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B-**' (read as **ACUITE B minus**) and reaffirmed the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.66.00 Cr bank facilities of H M Steels Limited (HMSL). The outlook remains '**Stable**'.

#### Rationale for the rating

The rating upgrade factors the significant improvement in the operating income of the company in FY2022 marked by 65 per cent Y-o-Y growth in the revenues. The rating also considers the experienced management and the above average financial risk profile of the company reflected by comfortable gearing. These strengths are, however, offset by the moderate working capital management and the highly fragmented industry.

#### About the Company

Incorporated in 1999, H M Steels Limited (HMSL) is promoted by Mr. Megh Raj Garg, Mr. Rajnish Bansal, Mr. Pankaj Bansal and Mr. Ashok Kumar Singla. Based in Sirmour (Himachal Pradesh), the company is engaged in the manufacture of ingots, ERW pipes, MS bars and galvanised iron pipes.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- Improvement in the operating income aided by association with reputed clientele

The directors, Mr. Megh Raj Garg, Mr. Rajnish Bansal, Mr. Pankaj Bansal and Mr. Ashok Kumar

Singla, possess a decade long expertise in the same line of business. The experienced management along with HMSL's two decades long presence in the industry has assisted the company's performance by developing healthy relationships with the clientele, Jindal Supreme (India) Private Limited, Bansal Iron & Steel Rolling Mills, JLT Infra Limited, to name a few. The company achieved 65 per cent Y-o-Y growth in the operating income and has achieved revenues of Rs.560.70 Cr. in FY2022 as compared to Rs.340.29 Cr. in FY2021. Further, the company has achieved revenues of around Rs.404.36 Cr. till November, 2022 (provisional). The significant improvement in operating income is on account of increase in the production capacity utilisation along with increase in the average realizations. Acuité believes that the business risk profile of the company is expected to improve over the medium term on account of increase in the capacity utilisation and rise in the demand of steel products.

- **Above average financial risk profile**

The company's above average financial risk profile is reflected by modest net worth base, comfortable gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.63.31 Cr as on March 31, 2022 from Rs.56.50 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood below unity at 0.55 times as on March 31, 2022 as compared to Rs.0.69 times as on March 31, 2021, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.24 times as on March 31, 2022 as against 1.28 times as on March 31, 2021. However, the modest debt coverage metrics is marked by Interest Coverage Ratio (ICR) at 3.15 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.03 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.26 times as on March 31, 2022. Acuité believes that the financial risk profile of company will continue to remain above average over the medium term, in absence of any major debt funded capex plans.

## **Weaknesses**

- **Thin profitability margins**

The operating margin of the company marginally declined to 2.51 per cent in FY22 as against 3.15 percent in FY21 on account of increase in the raw material cost which could not be passed on to the end user. The PAT margin slightly dipped to 1.23 per cent in FY22 as compared to 1.28 per cent in FY21. The ROCE levels stood at 11.09 per cent in FY22 as compared to 9.82 per cent in FY21. Acuité believes that going forward, the firm's ability to improve the profitability margins will be a key sensitivity factor.

- **Moderate working capital management**

The moderate working capital management of the company is marked by gross current asset (GCA) of 70 days in FY2022 as against 102 days in the previous year. The modest GCA days are primarily on account of high other current assets owing to advance paid to suppliers in order to pre-book the iron scrap to avoid material shortage. The advance to suppliers stood at Rs.21.03 Cr in FY2022 as against Rs.1.99 Cr in FY2021. However, the debtor period reduced to 25 days as on March 31, 2022 from 47 days in the previous year due to writing off the bad debts of around Rs.4.39 Cr in FY2022. The inventory period stood comfortable at 23 days as on 31st March, 2022 as compared to 19 days as on 31st March, 2021. Acuité believes that the working capital management of the company will remain moderate over the medium term as evident from the high other current assets maintained.

- **Cyclical nature of the industry**

Steel consumption is majorly dependent on the economic activities taking place in and around the country. The end-user industry being Infrastructure and Real Estate, any significant slowdown in these industries will affect the revenues of steel players. Further, HMSL competes with various players in the organized and unorganized segments in the steel industry, thus limiting the pricing power.

## **Rating Sensitivities**

- Significant improvement in scale of operations while improving profitability margins
- Sustenance of the capital structure

### Material covenants

None

### Liquidity position: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.9.03 Cr in FY2022 as against long term debt repayment of Rs.8.64 Cr over the same period. The current ratio stood comfortable at 1.51 times as on 31st March, 2022 as compared to 1.44 times as on 31st March, 2021. The cash and bank balances of the company stood at Rs.0.19 Cr in FY2022 as compared to Rs.0.18 Cr in FY2021. However, the fund based limit utilization is at 88 per cent over the six months ended October, 2022. The working capital management of the company is moderate marked by Gross Current Assets (GCA) of 70 days in FY2022 as compared to 102 days in FY2021 due to high other current assets owing to advance paid to suppliers. Acuité believes that going forward the company's liquidity position will improve due to gradually increasing net cash accruals and reduction in the yearly debt repayment burden.

### Outlook: Stable

Acuité believes that the outlook on HMSL will remain 'Stable' over the medium term on account of the experience of the promoters, the company's long track record of operations and the growing revenue level. The outlook may be revised to 'Positive' in case the company continues to register consistent growth in revenues while sustaining their capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues, or in case of deterioration in the company's financial risk profile and liquidity position.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	560.70	340.29
PAT	Rs. Cr.	6.89	4.35
PAT Margin	(%)	1.23	1.28
Total Debt/Tangible Net Worth	Times	0.55	0.69
PBDIT/Interest	Times	3.15	2.43

### 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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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, Acuité 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](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Sep 2022	Cash Credit	Long Term	26.00	ACUITE B- (Issuer not co-operating*)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	10.94	ACUITE B- (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	27.06	ACUITE B- (Issuer not co-operating*)
14 Jun 2021	Cash Credit	Long Term	26.00	ACUITE B- (Issuer not co-operating*)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	10.94	ACUITE B- (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	27.06	ACUITE B- (Issuer not co-operating*)
23 Mar 2020	Working Capital Demand Loan	Long Term	27.06	ACUITE B- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	10.94	ACUITE B- (Issuer not co-operating*)
	Letter of Credit	Short term	2.00	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	26.00	ACUITE B- (Issuer not co-operating*)
17 Jan 2019	Letter of Credit	Short Term	2.00	ACUITE A4 (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	10.94	ACUITE B- (Issuer not co-operating*)
	Cash Credit	Long Term	26.00	ACUITE B- (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	27.06	ACUITE B- (Issuer not co-operating*)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A4   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE BB-   Stable   Upgraded ( from ACUITE B- )
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB-   Stable   Upgraded ( from ACUITE B- )
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE BB-   Stable   Upgraded ( from ACUITE B- )

## Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a>  Geeta Karira Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:geeta.karira@acuite.in">geeta.karira@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.