



**Press Release**  
**H. M. Steels Limited**  
**March 12, 2024**  
**Rating Reaffirmed**

| Product                                       | Quantum<br>(Rs. Cr) | Long Term Rating                    | Short Term Rating         |
|---|---------------------|-------------------------------------|---------------------------|
| Bank Loan Ratings                             | 59.00               | ACUITE BB-   Stable  <br>Reaffirmed | -                         |
| Bank Loan Ratings                             | 7.00                | -                                   | ACUITE A4  <br>Reaffirmed |
| <b>Total Outstanding<br/>Quantum (Rs. Cr)</b> | 66.00               | -                                   | -                         |

**Rating Rationale**

Acuite has reaffirmed the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) and 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 rating**

The rating takes into cognizance the augmentation in business risk profile of the company majorly driven by improvement in scale of operations. The company has achieved revenues of Rs. 568.91 Cr. in FY2023 as compared to revenues of Rs. 560.70 Cr. in FY2022. The improvement in revenues is majorly on account of increase in average realization during the period. The company has achieved revenue of Rs. 492 Cr. as on January 2024(Provisional).

The rating also factors the above average financial position of the company characterized by a comfortable capital structure. The rating also draws comfort from established track record and experience management.

However, these strengths are partly offset by the volatility in margins and strong competitive pressure and inherent cyclical patterns in the steel sector.

**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 MS Billets, ERW pipes and MS flat.

**Unsupported Rating**

Not Applicable

**Analytical Approach**

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

**Key Rating Drivers**

**Strengths**

- Established track record of operations and experienced promoters

Incorporated in 1999, HMSL has established a two decades long presence in the industry with healthy relationships developed with the clientele, Jindal Supreme (India) Private Limited,

Rawalwasia Steel Plant Pvt Ltd, Rawalwasia Ispat Udyog (P) Limited, to name a few. The directors of HMSL, Mr. Megh Raj Garg, Mr. Rajnish Bansal, Mr. Pankaj Bansal and Mr. Ashok Kumar Singla possess a decade long experience in the same line of business and has helped in securing repeated orders. Acuite believes that the company will continue to benefit from the experienced management and the long track record of the company's operations. The company has achieved revenues of Rs. 568.91 Cr. in FY2023 as compared to revenues of Rs. 560.70 Cr. in FY2022. The improvement in revenues is majorly on account of increase in average realization during the period. The company has achieved revenue of Rs. 304.18 Cr. as on September 2023 and Rs. 492 Cr. as on January 2024(Provisional).

Going forward, Acuite believes that the business risk profile is expected to improve over the medium term.

- **Above Average financial risk profile**

The company's financial risk profile is above-average marked by improving net worth base, low gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.67.00 Cr. as on March 31, 2023 from Rs.63.31 Cr. as on March 31, 2022 due to accretion of reserves. The gearing of the company stood below unity at 0.57 times as on March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.42 times as on March 31, 2023 as against 1.24 times as on March 31, 2022. The debt protection metrics of the company is moderate marked by Interest Coverage Ratio (ICR) at 2.70 times and Debt Service Coverage Ratio at 1.43 times as on March 31, 2023. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on March 31, 2023.

Acuite 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.

- **Moderate working capital requirement**

The working capital cycle of the company is marked by gross current asset (GCA) of 83 days in FY2023 as against 70 days in FY2022. The moderate 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.15.81 Cr. in FY2023. However, the inventory period stood at 31 days as on 31st March, 2023 as compared to 23 days as on 31st March, 2022. The debtor period stood at 28 days as on March 31, 2023 as compared to 25 days as on 31st March, 2022.

Acuite believes that the working capital management of the company will remain similar over the medium term as evident from the high other current assets maintained.

## **Weaknesses**

- **Thin profitability margins**

The operating margin of the company declined to 1.10 per cent in FY2023 from 1.92 per cent in FY2022. The margins decreased on account of increase in the raw material cost which could not be passed on to the customer. The PAT margins also declined to 0.65 per cent in FY2023 as against 1.23 per cent in FY 2022. The ROCE levels stood at a moderate level of about 8.61 per cent in FY2023 as against 10.54 per cent in FY2022.

Acuite believes that going forward, the profitability margins are expected to improve over the medium term.

- **Strong Competitive Pressure and Inherent Cyclical Patterns in the Steel Sector**

The steel rolling sector continues to lack organization and cohesion. The company faces strong competitive forces from both organized and unorganized participants, compounded by the cyclicity inherent in the steel industry. Moreover, the government's emphasis on steel-

intensive sectors like railways and infrastructure increases vulnerability; any prolonged drop in demand would negatively affect steel companies' performance. Furthermore, the fluctuation in prices of raw materials and goods is considerably unstable. The business also contends with rivalry from more affordable imports from Indonesia and China. A substantial rise in imports could detrimentally affect earnings and quantities, making this a crucial aspect to watch.

### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins
- Sustenance of the capital structure

### **Liquidity Position Adequate**

The company's liquidity is adequate marked by steady net cash accruals of Rs.5.62 Cr as on March 31, 2023 as against long term debt repayment of Rs.2.72 Cr over the same period. Moreover, the current ratio stood at 1.40 times as on March 31, 2023. The cash & bank balance of the company stood at Rs. 1.91 Cr as on March 31, 2023. Further, the moderate working capital management of the company is marked by gross current asset (GCA) of 83 days in FY2023 as against 70 days in FY2022. In addition, the fund based limit remained utilized at ~84.78 per cent over the six months ended January, 2024. Acuité believes that the company will maintain adequate liquidity position due to steady accruals.

### **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 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 568.91         | 560.70         |
| PAT                           | Rs. Cr. | 3.69           | 6.89           |
| PAT Margin                    | (%)     | 0.65           | 1.23           |
| Total Debt/Tangible Net Worth | Times   | 0.57           | 0.62           |
| PBDIT/Interest                | Times   | 2.70           | 3.15           |

### 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>
- 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, 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](http://www.acuite.in)

## Rating History

| Date        | Name of Instruments/Facilities     | Term       | Amount (Rs. Cr) | Rating/Outlook   |
|-------------|------------------------------------|------------|-----------------|--|
| 16 Dec 2022 | Letter of Credit                   | Short Term | 5.00            | ACUITE A4 (Reaffirmed)   |
|             | Bank Guarantee (BLR)               | Short Term | 2.00            | ACUITE A4 (Reaffirmed)   |
|             | Cash Credit                        | Long Term  | 26.00           | ACUITE BB-   Stable (Upgraded from ACUITE B-   Not Applicable)     |
|             | Proposed Long Term Bank Facility   | Long Term  | 23.00           | ACUITE BB-   Stable (Upgraded from ACUITE B-   Not Applicable)     |
|             | Covid Emergency Line.              | Long Term  | 10.00           | ACUITE BB-   Stable (Upgraded from ACUITE B-   Not Applicable)     |
| 12 Sep 2022 | Cash Credit                        | Long Term  | 26.00           | ACUITE B-   Not Applicable (Reaffirmed & Issuer not co-operating*) |
|             | Working Capital Demand Loan (WCDL) | Long Term  | 27.06           | ACUITE B-   Not Applicable (Reaffirmed & Issuer not co-operating*) |
|             | Proposed Long Term Bank Facility   | Long Term  | 10.94           | ACUITE B-   Not Applicable (Reaffirmed & Issuer not co-operating*) |
|             | Letter of Credit                   | Short Term | 2.00            | ACUITE A4 (Reaffirmed & Issuer not co-operating*)                  |
| 14 Jun 2021 | Working Capital Demand Loan (WCDL) | Long Term  | 27.06           | ACUITE B- (Reaffirmed & Issuer not co-operating*)                  |
|             | Proposed Long Term Bank Facility   | Long Term  | 10.94           | ACUITE B- (Reaffirmed & Issuer not co-operating*)                  |
|             | Cash Credit                        | Long Term  | 26.00           | ACUITE B- (Reaffirmed & Issuer not co-operating*)                  |
|             | Letter of Credit                   | Short Term | 2.00            | ACUITE A4 (Reaffirmed & 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 avl. / Not appl. | Bank Guarantee (BLR)             | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple           | 2.00              | ACUITE A4<br> <br>Reaffirmed              |
| Punjab National Bank | Not avl. / Not appl. | Cash Credit                      | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple           | 26.00             | ACUITE BB-<br> <br>Stable  <br>Reaffirmed |
| Punjab National Bank | Not avl. / Not appl. | Covid Emergency Line.            | Not avl. / Not appl. | Not avl. / Not appl. | 31 Dec 2024          | Simple           | 7.00              | ACUITE BB-<br> <br>Stable  <br>Reaffirmed |
| Punjab National Bank | Not avl. / Not appl. | Covid Emergency Line.            | Not avl. / Not appl. | Not avl. / Not appl. | 31 Oct 2026          | Simple           | 3.00              | ACUITE BB-<br> <br>Stable  <br>Reaffirmed |
| Punjab National Bank | Not avl. / Not appl. | Letter of Credit                 | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple           | 5.00              | ACUITE A4<br> <br>Reaffirmed              |
| Not Applicable       | Not avl. / Not appl. | Proposed Long Term Bank Facility | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple           | 23.00             | ACUITE BB-<br> <br>Stable  <br>Reaffirmed |

## Contacts

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|---|--|
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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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