

Bali Steel Tubes: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	11.00	SMERA BB/Stable (Assigned)

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) to the Rs.11.00 crore long term bank facility of Bali Steel Tubes (BST). The outlook is '**Stable**'.

The rating is supported by the extensive experience of the management in steel trading and established relations with customers and suppliers. The rating is also supported by the healthy liquidity profile and average financial risk profile marked by low gearing and above average debt protection metrics. However, the rating is constrained by the intense competition in the steel trading business and susceptibility of profit margins to fluctuations in steel prices.

BST is engaged in steel trading since 1995. The promoters possess experience of over two decades in the line of business. The firm sells a range of hot-rolled coils, steel pipes, square and ERW tubes in Maharashtra.

BST's above average financial risk profile is reflected in its debt equity of 1.26 times in FY2016 as against 1.09 times in FY2015. The ratio draws comfort from the fact that BST has only working capital borrowings from banks. The rating also factors in the healthy debt protection metrics marked by interest coverage ratio of 2.92 times and net cash accruals to total debt ratio of 12 per cent in FY2016.

However, the rating is constrained by BST's exposure to intense competition in the steel trading business and cyclical nature in the steel industry. The rating also notes the susceptibility of profit margins to volatility in raw material prices of steel and fluctuations in forex rates. BST's net profit margins stand at 1.06 per cent in FY2015. Net profitability stands at 1.11 per cent in FY2016 (provisional).

Rating Sensitivity Factors

- Improvement in revenues and profitability
- Extent of capex and its funding mix

Outlook-Stable

SMERA believes that BST will maintain a stable outlook in the medium term backed by its promoters' extensive experience and established relations with its suppliers. The outlook may be revised to 'Positive' if the firm registers more than expected revenues while improving profitability. However, the outlook may be revised to 'Negative' if it fails to achieve the expected revenues or is unable to sustain profitability leading to deterioration in the debt protection metrics. Any elongation in the working capital cycle may also entail a 'Negative' outlook.

Criteria applied to arrive at the rating:

- Trading Entities

About the Firm

Established in 1995 as a proprietorship firm by Mr. Praveen Khanna, BST sells a range of steel pipes and tubes in Maharashtra. The day-to-day operations are managed by Mr. Praveen Khanna.

For FY2014-15 (refers to financial year April 01 to March 31), BST reported profit after tax (PAT) of Rs.1.01 crore on operating income of Rs.95.70 crore, as compared with profit after tax (PAT) of Rs.1.20 crore on operating income of Rs.75.63 crore in FY2013-14. The gross revenues stood at Rs.92.43 crore for FY2016 (provisional).

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ABOUT SMERA

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