

Press Release

Shree Venktesh Wires steel Private Limited

December 05, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.15.00 crore bank facilities of Shree Venktesh Wires and Steels Private Limited (SVPL). The outlook is '**Stable**'.

The upgrade takes into the account the improvement in the business and financial risk profile of SVPL. Operating and PAT margins stood at 4.55 percent and 2.61 percent in respectively FY2019 and 3.05 percent and 1.40 percent respectively in FY2018. Debt to EBITDA stood at 1.91 times in FY2019 against 2.68 times in the previous year. Gearing improved to 1.03 times as on March 31, 2019 from 1.41 times as on March 31, 2018. ICR improved to 4.45 times in FY2019 against 3.22 times in FY2018. Acuité believes that the company will be able to sustain the business risk profile over the medium term.

SVPL, incorporated in 1979, is a Mumbai-based company promoted by Late Mr. Babulalji Bhagat. It is currently managed by his son Mr. Binod Bhagat and Mrs. Anita Bhagat. SVPL is engaged in trading of stainless steel flat products (sheet, plate & coils). It has been a stockiest and distributor for Jindal Stainless Limited (JSL) for the past two decades. Currently, they have a MOU with JSL of 15000 tons per year. SVPL operates out of its registered office in Mumbai and warehouse near Panvel, Maharashtra.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SVPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operation

SVPL was incorporated in 1979, by Late Mr. Babulalji Bhagat. It is current managed by his son Mr. Binod Bhagat. He is supported by his wife Mrs. Anita Bhagat in the day to day operations. The company has been a stockiest and distributor for Jindal Stainless Limited (JSL) for the past two decades. Currently, they have a MOU with JSL of 15000 tons per year.

Acuité believes that the company will continue to benefit from its experienced management and relationship with its principal - JSL.

• Above average financial risk profile

The financial risk profile of SVPL has been above average during the period under study. The net worth of SVPL has increased to Rs.21.01 crore as on 31 March 2019 as against Rs.14.99 crore as on 31 March 2018. SVPL has followed a conservative financial policy as reflected by peak gearing of 1.57 times over the last three years through 2017-19. The gearing of SVPL stood at 1.03 times as on March 31, 2019. The total debt of Rs. 21.62 crore as on 31 March 2019 includes unsecured loans from promoters of Rs.6.48 crore and working capital borrowing of Rs.14.86 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 1.96 times as on 31 March, 2019 improving from 2.43 times as on 31 March, 2018. Interest Coverage Ratio (ICR) has improved to 4.45 times in FY2019 against 3.22 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.29 times as on

31 March, 2019 as against 0.18 times as on 31 March, 2018.
 Acuité believes that...

• Improving business risk profile

SVPL's improving business risk profile is reflected increasing profitability margins. The operating margins increased to 4.55 per cent in FY2019 from 3.05 per cent in FY2018. PAT margins increased to 2.61 per cent in FY19 from 1.40 per cent in FY18. The improving margins can be attributed to decrease in material costs a percentage of total sales. It stood at 94.68 per cent in FY19 against 96.26 per cent in FY18. SVPL has benefitted from favorable pricing terms from its principal.

Weaknesses

• Volatility in commodity prices

The margins of SVPL are susceptible to volatility in steel prices. Significant changes in steel prices due to import pressure and over supply would have an impact on the margins.

• Highly fragmented industry with intense competition

SVPL operates in a highly competitive industry thereby putting pressure on its pricing power. However, the introduction of GST pushed out of business, leading to easing of competitive pressures.

Liquidity Position: Adequate

SVPL liquidity is adequate marked by net cash accruals of Rs.6.35 crores against no current year obligations FY 2019. The accruals are expected to remain adequate over medium term on account of improving margins. The current ratio has remained comfortable at 1.63 as on March 31, 2019 and 1.54 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals and comfortable current ratio.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuité believes SVPL will maintain a stable business risk profile in the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' in case SVPL registers higher-than-expected growth in revenue while maintaining profit margins. Conversely, the outlook may be revised to 'Negative' in case SVPL registers lower-than-expected growth in profitability and revenue or in case of elongation in the SVPL's working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	233.34	246.54
Profit After Tax (PAT)	Rs. Cr.	6.10	3.46
PAT Margin	(%)	2.61	1.40
Total Debt/Tangible Net Worth	Times	1.03	1.41
PBDIT/Interest	Times	4.45	3.22

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
14-Dec-2018	Cash Credit	Long Term	15.00	ACUITE BB+/Stable (Reaffirmed)
12-Dec-2017	Cash Credit	Long Term	15.00	ACUITE BB+/Stable (Upgraded)
15-Sep-2016	Cash Credit	Long Term	10.00	ACUITE BB/Stable (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE BB/Stable (Assigned)

***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	15.00	ACUITE BBB-/Stable (Upgraded from BB+/Stable)

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About Acuité Ratings & Research:

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