

## Press Release

### ADVANCE STEEL & TUBE MILLS

21 February, 2018

#### Rating Upgraded and Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	SMERA B+ / Outlook: Stable (Upgraded from SMERA B-/Stable)
<b>Short Term Rating</b>	SMERA A4

\* Refer Annexure for details

#### Rating Rationale

SMERA has upgraded the long-term rating to '**SMERA B+**' (read as SMERA B plus) from '**SMERA B-**'(read as SMERA B minus) and reaffirmed the short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 10.00 crore bank facilities of ADVANCE STEEL AND TUBE MILLS (ASTM). The outlook is '**Stable**'.

The upgrade is in view of the improvement in realisation from debtors in FY2017 as compared to FY2016. The upgrade also factors in the increased demand for stainless steel seamless and welded pipes and tubes. SMERA believes that the firm will sustain its improvement in working capital cycle and register growth in revenues over the near to medium term.

Advance Steel & Tube Mills (ASTM) established in 2001 is part of the Purohit Group. The firm, led by Mr. Rakesh Purohit and Mr. Mukesh Purohit, is engaged in the manufacturing of stainless steel seamless and welded pipes and tubes. The manufacturing unit is located at Vadodara (Gujarat) with installed capacity of 6,000 mtpa, inclusive of fabrication works.

#### **Key Rating Drivers**

##### **Strengths**

- Experienced management**

ASTM was established in 2001 by Mr. Mukesh P. Purohit and Mr. Rakesh P. Purohit who possess over two decades of experience in the metal industry.

- Reputed customers**

ASTM has established relationships with reputed clients including Alfa Laval India Limited, Bhushan Powder & Steel Limited, Essar Oil Limited, Grasim Industries Limited among others.

##### **Weaknesses**

- Small scale of operations**

The scale of operations is small with operating income of Rs. 12.29 crore in FY2017 as against Rs. 7.65 crore in FY2016 and Rs. 15.28 crore in FY2015. For the period April 2017 to January 2018 (Provisional), the firm registered revenue of ~Rs.14.00 crore. Around 90 percent of the business is tender based. Thus, the scale of operations depends on the value of tender won by the firm and its subsequent execution.

- Average financial risk profile**

ASTM's financial risk profile is average marked by tangible net worth of Rs. 4.00 crore as on 31 March, 2017 as against Rs.4.16 crore as on 31 March, 2016 and Rs.4.06 crore as on 31 March, 2015. The firm is exposed to risk of capital withdrawal considering its partnership constitution. The debt-to-equity ratio stood at 2.96 times in FY2017 as against 2.52 times in FY2016. The total debt mainly includes working capital borrowings and unsecured interest free unsubordinated loans from promoters and group companies. The Interest Coverage Ratio stood at 1.24 times in FY2017 as against 1.23 times in FY2016.

- **Improvement in working capital cycle**

ASTM's working capital cycle has improved compared to last year's but still remains intensive due to stretched debtors and high inventory holding. The debtors days stood at 61 in FY2017 as against 255 in FY2016. The debtor position improved in FY2017 on account of realisations from debtors. The inventory holding period stood at 349 days in FY2017 and 474 days in FY2016. SMERA believes that the operations of ASTM may remain working capital intensive.

#### Analytical Approach

SMERA has considered the standalone business and financial risk profile of ASTM to arrive at the rating.

#### Outlook: Stable

SMERA believes that ASTM will maintain a Stable outlook over the medium term owing to its experienced management. The outlook may be revised to Positive in case the firm registers more than expected growth in revenues while achieving improvement in profitability. Conversely the outlook may be revised to Negative in case of high working capital requirements increasing pressure on margins or debt funded capex deteriorating the financial risk profile of the firm.

#### About the Rated Entity - Key Financials

	Unit	FY2017 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	12.29	7.22	15.28
EBITDA	Rs. Cr.	1.10	0.60	1.32
PAT	Rs. Cr.	0.14	0.10	0.29
EBITDA Margin	(%)	8.93	8.34	8.63
PAT Margin	(%)	1.15	1.39	1.88
ROCE	(%)	7.63	4.26	9.84
Total Debt/Tangible Net Worth	Times	2.96	2.52	2.80
PBDIT/Interest	Times	1.31	1.29	1.56
Total Debt/PBDIT	Times	1.24	8.90	7.53
Gross Current Assets (Days)	Days	511	850	350

#### 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. Crore)	Ratings/Outlook
18-Nov, 2016	Cash Credit	Long Term	INR 6	SMERA B- / Stable
	Letter of Credit	Short Term	INR 2	SMERA A4
	Bank Guarantee	Short Term	INR 2	SMERA A4

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4

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## ABOUT SMERA

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