

Press Release

Advance Steel & Tube Mills

May 03, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.*
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 10.00 crore bank facilities of Advance Steel & Tube Mills (ASTM). The outlook is '**Stable**'.

Established in 2001, ASTM is a part of Purohit Group. The firm is managed by Mr. Rakesh Purohit and Mr. Mukesh Purohit. The firm is engaged in the business of manufacturing stainless steel seamless and welded pipes and tubes. The firm has manufacturing units located in Vadodara (Gujarat) with a total capacity of 6,000 metric tonnes per annum, inclusive of fabrication works. Their customers include reputed clients such as Essar Oil Limited, Hindustan Dorr Oliver Limited, and Reliance Industries Limited to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

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. Acuité believes that the firm will benefit from its experienced management which will help to create long standing relations with customers and suppliers.

- **Reputed customers**

ASTM has established relationships with reputed clients including Alfa Laval India Limited, Bhushan Powder & Steel Limited, Essar Oil Limited and Grasim Industries Limited, among others. Acuité believes that the company will continue to benefit over the near to medium term on account of long standing relationship with these customers.

Weaknesses

- **Small scale of operations and declining profitability**

The scale of operations is small with operating income of Rs.13.23 crore in FY2018 as against Rs.12.29 crore in FY2017 and Rs.7.65 crore in FY2015. Since around 90 percent of the business is tender based, the scale of operations depends on the value of tender won by the firm and its subsequent execution. Further, the operating profit margins of the company have been decreasing for the last three years with a margin of 7.39 per cent for FY2018, 8.93 per cent for FY2017 and 13.49 per cent for FY2016.

- **Moderate financial risk profile**

The financial risk profile is marked by moderate gearing (debt-equity) and moderate total outside liabilities to total net worth (TOL/TNW). The gearing stood at 2.66 times as on 31 March, 2018 as against 2.96 times on 31 March, 2017. TOL/TNW stood moderate at 3.14 times as on 31 March, 2018. The total debt of Rs.11.06 crore includes short term debt of Rs. 6.07 crore and unsecured loan of Rs.4.98 crore as on 31

March, 2018. The net worth stood moderate at Rs. 4.16 crore as on March, 2018. Low net worth and high working capital requirements are expected to keep gearing levels moderate over the near to medium term. Debt protection metrics also stood below average with Interest coverage ratio (ICR) at 1.36 times as on 31 March, 2018 and low net cash accrals to total debt (NCA/TD) of 0.02 times in FY2018. Acuité believes that maintaining a stable financial risk profile will be crucial for overall sustainability.

Liquidity Position

ASTM has an average liquidity position. The net cash accrals for the firm stood at Rs. 0.24 crore for FY2018 as against Rs. 0.23 crore for FY2017. The accrals stood below average against debt repayment obligations. The current ratio of the firm stood comfortable at 2.06 times in FY2018. The working capital facilities were utilised at 90 per cent in the last six months ending February 2019. The unencumbered cash and bank balance stood low at Rs. 0.12 crore as on 31 March, 2018. Acuité believes that the liquidity of the company is likely to remain average over the medium term on account of its stretched working capital cycle and higher dependency on working capital limits.

Outlook: Stable

Acuité believes that ASTM will maintain a 'Stable' outlook over the medium term owing to its experienced management and reputed clientele. 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	13.23	12.29	7.65
EBITDA	Rs. Cr.	0.98	1.10	1.03
PAT	Rs. Cr.	0.15	0.14	0.10
EBITDA Margin	(%)	7.39	8.93	13.49
PAT Margin	(%)	1.12	1.15	1.31
ROCE	(%)	6.88	7.63	14.62
Total Debt/Tangible Net Worth	Times	2.66	2.96	2.52
PBDIT/Interest	Times	1.36	1.31	1.29
Total Debt/PBDIT	Times	9.57	9.43	8.90
Gross Current Assets (Days)	Days	459	511	822

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
21-Feb-2018	Cash Credit	Long Term	6.00	ACUITE B+ (Upgraded)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Long Term	2.00	ACUITE A4 (Reaffirmed)
18-Nov-2016	Cash Credit	Long Term	6.00	ACUITE B- / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Assigned)
	Letter of Credit	Long Term	2.00	ACUITE A4 (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	6.00	ACUITE B+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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