

Press Release

Advance Steel & Tube Mills

September 04, 2020



Rating Reaffirmed & Assigned

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**) on the Rs.10.00 crore bank facilities of Advance Steel Tube and Mills (ASTM). The outlook is '**Stable**'.

Advance Steel Tube and Mills (ASTM) was established in 2001 and is engaged in manufacturing stainless steel seamless and welded pipes and tubes. The firm is managed by Mr. Rakesh Purohit and Mr. Mukesh Purohit. The manufacturing units are located in Vadodara (Gujarat) with a total capacity of 6,000 metric tonnes per annum, inclusive of fabrication works.

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 reputed customers:**

ASTM was established in 2001 and is engaged in manufacturing stainless steel seamless and welded pipes and tubes. The firm is managed by Mr. Mukesh P. Purohit and Mr. Rakesh P. Purohit, who possess over two decades of experience in the metal industry. The firm also has established relationships with reputed clients including Alfa Laval India Limited, Bhushan Powder & Steel Limited, Essar Oil Limited, Grasim Industries Limited, Hindustan Dorr Oliver Limited, and Reliance Industries Limited among others. Acuité believes that the firm will benefit from its experienced management which will help to create long-standing relations with customers and suppliers.

Weaknesses

- **Moderate financial risk profile**

The firm's financial risk profile is marked by low net worth, moderate gearing (debt-equity) and moderate debt protection metrics. The tangible net worth of the firm stood low at Rs.4.47 crore as on 31 March, 2020 (Provisional) as compared to Rs.4.27 crore as on 31 March, 2019. The total debt of Rs.10.43 crore as on 31 March, 2020 (Provisional) includes short term borrowing of Rs.5.50 crore and unsecured loans from directors/promoters of Rs.4.93 crore. The gearing (debt-equity) stood at 2.33 times as on 31 March, 2020 (Provisional) as compared to 2.67 times as on 31 March, 2019. The Interest Coverage Ratio stood moderate at 1.48 times for FY2020 (provisional) as against 1.56 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.48 times in FY2020 (Provisional) as against 1.42 times in FY2019. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.53 times as on 31 March, 2020 (Provisional) as compared to 3.09 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.04 times for FY2020 (Provisional). Acuité believes that maintaining a stable financial risk profile will be crucial for overall sustainability.

- **Working capital intensive operations**

The operations of the firm stood working capital intensive in nature marked by high Gross Current Assets (GCA) days of 299 days in FY2020 (Provisional) and 291 days in FY2019. This is mainly due to high debtor days of around 175 days in FY2020 (Provisional) as against 98 days in FY2019. The inventory days also stood at 65 days in FY2020 (Provisional) as against 121 days in FY2019. The average bank limit

utilisation stood at ~87.00 percent for the past seven months ending July 2020. Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Industry weakness

- The volatility in the prices of raw material, i.e. steel prices, will have a major impact on the profit margins of the firm.
- The firm operates in a highly competitive and fragmented industry characterized by a large number of unorganized players, which further affects the margins of the firm.

Rating Sensitivities

- Significant improvement in the financial risk profile
- Any further deterioration in working capital operations will lead to liquidity constraints

Material Covenants:

None.

Liquidity Position: Stretched

ASTM has a stretched liquidity position marked by high Gross Current Assets days (GCA). The working capital operations are highly intensive in nature marked by Gross Current Asset (GCA) days of 299 in FY2020 (Provisional) as against 291 days in FY2019. The firm has generated net cash accruals in the range of Rs.0.20-0.40 crore during the last three years through 2018-20, while there are no debt obligations over the same period. The average bank limit utilisation over the last seven months ended July 31, 2020 stood moderate at ~87.00 percent. The firm maintained unencumbered cash and bank balances of Rs.0.27 crore as on March 31, 2020 (Provisional). The current ratio stood high at 2.31 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity of the firm is likely to remain moderate 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 further deterioration in working capital leading to deterioration in the financial risk profile of the firm.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	18.03	20.27
PAT	Rs. Cr.	0.34	0.26
PAT Margin	(%)	1.87	1.29
Total Debt/Tangible Net Worth	Times	2.33	2.67
PBDIT/Interest	Times	1.48	1.56

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

None.

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>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-May-2020	Cash Credit	Long Term	6.00	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Reaffirmed)
21-Feb-2018	Cash Credit	Long Term	6.00	ACUITE B+/Stable (Upgraded)
	Bank Guarantee	Short Term	2.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short 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	Short 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	1.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in
Rupesh Patel Senior Analyst – Rating Operations Tel: 022 49294044 rupesh.patel@acuite.in	

About Acuité Ratings & Research:

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