

Press Release

Shivam Steels And Tubes Private Limited

April 07, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (**read as SMERA BB**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 33.00 crore bank facilities of Shivam Steels And Tubes Private Limited. The outlook is '**Stable**'.

Shivam Steels and Tubes Private Limited (Shivam Steels), a Mumbai-based company was incorporated in 1998 by Mr. Rajendra Mehra, Mrs. Minnie Mehra, Mr. Yashpal Mehra and Mrs. Poonam Mehra. The company is engaged in the manufacturing and export of ERW steel tubes and cold-rolled sheets. The installed capacity stands at 36,000 MT per annum.

Key Rating Drivers

Strengths

- **Experienced management**

Shivam Steels was incorporated in 1998 by Mr. Rajendra Mehra and others who possess more than 20 years of experience in the steel industry.

- **Improved operating margins**

The EBIDTA margins stood at 8.03 percent in FY2016 as compared to 5.44 percent in FY2015. The operating margins registered improvement in FY2016 as compared to the previous year on account of decline in raw material cost as a percentage of sales. The PAT margins stood at 1.24 percent in FY2016 as compared to 0.35 percent in FY2015.

- **Average financial risk profile**

The financial risk profile is average marked by moderate net worth of Rs.21.46 cr as on 31 March, 2016 supported by unsecured loan of Rs. 6.16 cr treated as quasi equity in FY2016. The gearing stood at 0.49 times as on 31 March, 2016 as compared to 0.45 times as on 31 March, 2015. The ICR stood at 2.00 times for FY2016 as against 1.42 times in FY2015.

Weaknesses

- **Uneven revenue**

The operating income stood at Rs.71.42 cr in FY2016 as compared to Rs.94.16 cr in FY2015. For 11MFY2017 (Provisionals), the company achieved operating income of Rs.76.78 cr. The operating income has been uneven for the period FY2014 to FY2016 on account of fluctuations in sales realisation.

- **Debt funded ongoing capex**

Shivam Steels plans to set up a manufacturing facility for steel tubes and CR material at Chakan, Pune. The project work began in June 2015 and operations are expected to commence around August 2017.

The total project cost of Rs.24.17 cr has been funded through term loan of Rs.17.40 cr and promoter's capital of Rs.6.77 cr. The new manufacturing facility will have installed capacity of 60,000 MT per annum. Notwithstanding the benefits, the debt funded capex is expected to exert pressure on gearing and coverage indicators of the company.

• Working capital intensive operations

The operations are working capital intensive with Gross Current Assets (GCAs) of 142 days on account of high debtor levels of 87 days and inventory levels of 56 days. Further, the liquidity profile is stretched as the company fully utilises its working capital limits.

• Vulnerability of margins

The profitability is susceptible to volatility in raw material prices of mainly metal and steel products. The company operates in a highly fragmented and competitive industry with large number of organised and unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Shivam Steels and Tubes Private Limited (Shivam Steels) to arrive at the rating.

Outlook: Stable

SMERA believes that Shivam Steels will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, the company registered profit after tax (PAT) of Rs.0.89 cr on operating income of Rs.71.42 cr as against net profit after tax of Rs.0.33 cr on operating income of Rs.94.16 cr in the previous year. The net worth stood at Rs.21.46 cr as on 31 March, 2016 as against Rs.20.41 cr as on 31 March, 2015.

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

ICRA has suspended the rating on the bank facilities of Shivam Steels and Tubes Private Limited dated December 2013. The suspension follows ICRA's inability to carry out a rating surveillance in the absence of requisite information from the company.

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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the	Date of	Coupon	Maturity	Size of the Issue	Ratings/Outlook
-------------	---------	--------	----------	-------------------	-----------------

Facilities	Issuance	Rate	Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A4+

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Ankit Gupta Rating Analyst Tel: 022-67141263 ankit.gupta@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.