Press Release

Shree Samtainath Enterprises Private Limited

May 22, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 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. 6.00 crore bank facilities of Shree Samtainath Enterprises Private Limited. The outlook is **'Stable'**.

SSEPL was established in the year 1997 and trades in iron and steel products and also fabricates them. The company is part of Shree Samtainath group, with other major company being Rourkela Steel Corporation. While RSC was established in the year 1974, it trades in iron and steel products. The group's operations are managed by Mr Kedar Kheria and his son Mr Mayur Kheria. SMERA has consolidated the financial and business risk profiles of Shree Samtainath Enterprises Private Limited and Rourkela Steel Corporation while arriving at the rating. This is because both the entities are in the same line of business, have common management and significant operational linkages.

Key Rating Drivers

Strengths

• **Experienced management and long track record of operations:**
The promoter of the company Mr Kedar Kheria has more than four decades of experience in the iron and steel industry. Currently the group's operations are managed by Mr Kedar Kheria and his son Mr Mayur Kheria.

• **Average financial risk profile:**
The average financial risk profile of the group is marked by its low gearing and moderate interest coverage ratio and comfortable debt protection measures. Debt equity stands at 0.27 times and interest coverage at 1.77 times in FY2016. Moreover, Net Cash Accruals to Total Debt (NCA/TD) is at 0.17 times in FY2016. Debt Service Coverage Ratio (DSCR) is at 1.66 times in FY2016. The networth is comfortable at Rs 33.82 crore in FY2016. SMERA has treated Rs 13 crore of unsecured loans as quasi equity based on an undertaking from the group that the amount is from promoters and would be maintained in the business over the medium term.

• **Efficient working capital management:**
The efficient working capital management is marked by low working capital cycle days of 75 days in FY2016. The inventory day is low at 34 in FY2016, while the debtor days are at 52 in FY2016.

Weaknesses

• **Exposure to inherent cyclicality in the construction industry and infrastructure sector:**
The company remains exposed to inherent cyclicality in the construction industry and infrastructure sector.

- **Thin profit margins:**
  The company operates at thin profit margin, this is due to trading nature of business. The net profit margin is at 0.69 per cent in FY2016 and 0.70 per cent in FY2015. This is due to high interest burden.

- **Susceptibility of margins to fluctuations in steel prices:**
  Since the steel industry is the major end user of the group's products, the business is highly dependent on the performance of the steel industry and the price fluctuations. The profit margins and sales also remains exposed to the inherent cyclicality in the steel industry.

Analytical Approach

SMERA has considered a consolidated view on the financials of Shree Samtainath Enterprises Private Limited and Rourkela Steel Corporation while arriving at the rating. This is because all the two entities are in the same line of business, common management and significant operational linkages. The group is herein referred to as Shree Samtainath Group.

Outlook: Stable

SMERA believes that Shree Samtainath will continue to benefit over the medium term from the promoters vast experience in the iron and steel industry. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while maintaining its financial risk profiles. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

The group reported Profit After Tax (PAT) of Rs 1.09 crore as against operating income of Rs 158.70 crore in FY2015-16, While it reported PAT of Rs 1.21 crore as against operating income of Rs 173.08 crore in FY2014-15. The company on standalone basis reported Profit After Tax (PAT) of Rs 0.42 crore as against operating income of Rs 60.75 crore in FY2015-16, While it reported PAT of Rs 0.71 crore as against operating income of Rs 72.56 crore in FY2014-15. Till middle March 2017 (Provisional) they have registered revenue of Rs 61 crore.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Trading Entities - https://www.smera.in/criteria-trading.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 Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.75	SMERA BB / Stable
Bills Discounting	Not	Not	Not	1.00	SMERA A4+

	Applicable	Applicable	Applicable		
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA A4+

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Shreya Vaidya Analyst - Rating Operations Tel: 033-66201217 shreya.vaidya@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@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.