

Press Release

Paul Strips And Tubes Private Limited

July 27, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.50 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 plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 12.50 crore bank facilities of Paul Strips And Tubes Private Limited. The outlook is '**Stable**'.

Paul Strips and Tubes Private Limited (PSTPL) incorporated in 1985 is engaged in the manufacturing of MS tubes, Ingots, strips and skelps at Pune. The company was promoted by Mr. Siddhartha Katyal and Mr. Rishi Katyal and has an installed capacity of 18,000 metric tonnes per annum (MTPA). The company sells its products to wholesalers and retailers in Maharashtra.

Key Rating Drivers

Strengths

- **Established track record of operations**

The company is engaged in the abovementioned business for a decade and has long term relations with customers and suppliers. The day-to-day operations are led by Mr. Siddhartha Katyal, Managing Director who possesses experience of around three decades in the iron and steel industry.

- **Comfortable financial risk profile**

The financial risk profile is comfortable marked by gearing of 0.73 times as on 31 March, 2016. For arriving at the rating, unsecured loan of Rs. 4.88 crore from related parties has been considered as quasi equity as the same is subordinated to bank debt. The interest coverage ratio and debt service coverage ratio stood at 2.59 times and 1.46 times respectively for FY2016. The total liabilities to tangible net worth (TOL/TNW) stood at 1.19 times as on 31 March, 2017.

Weaknesses

- **Modest scale of operations**

The scale of operations is modest with operating income of Rs. 52.76 crore for FY2015-16 as against Rs. 47.17 crore in the previous year. The revenue growth in FY2016 is mainly on account of higher capacity utilisation in FY2016 over FY2017. However, PSTPL has reported stagnant revenue growth in FY2017 (Provisional) with operating income of Rs. 54.01 crore.

- **Working capital intensive operations**

The operations are working capital intensive evident from the high Gross Current Asset (GCA) days of 127 for FY2016 mainly on account of high inventory days of 91 days for FY2016. Further, the average cash credit limit utilisation stood at 90 percent for the last six months ended 30 April, 2017.

- **Highly fragmented and competitive industry**

PSTPL operates in a highly competitive and fragmented industry. The company faces stiff

competition from low cost manufacturers in the overseas markets.

• Susceptibility to volatility in commodity prices

The operations and profitability of the company are susceptible to volatility in the input prices (metal scrap) and finished goods (steel tubes). The material cost constituted around 80 percent of total sales in FY2016 as against 73 percent in the previous year. Significant changes in commodity prices due to import pressure and over supply may impact margins. However, the company mitigates the risk by passing on the fluctuations in raw material prices to its customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company for arriving at the rating.

Outlook: Stable

SMERA believes that PSTPL will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of significant growth in revenues and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its liquidity profile or financial risk profile due to higher than expected working capital requirement. Any debt funded capex undertaken by the company may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2015-16, PSTPL reported Profit after Tax (PAT) of Rs. 0.79 crore on operating income of Rs. 52.76 crore as against PAT of Rs. 0.77 crore on operating income of Rs. 47.17 in the previous year. The net worth stood at Rs. 13.11 crore as on 31 March, 2016 as against Rs. 10.44 crore in the previous year.

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

CRISIL, vide release dated April 23, 2016 has suspended its ratings on account of lack of adequate information required for monitoring of ratings.

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 Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.50	SMERA BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+

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ABOUT SMERA

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