

Press Release

Salem Stainless Steel Supplies Private Limited (SSSS)

12 September, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 57.40 Cr
Long Term Rating	SMERA BBB-/Outlook:Stable
Short Term Rating	SMERA A3

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.57.40 crore bank facilities of Salem Stainless Steel Supplies Private Limited (SSSS).

SSSS, a Chennai-based partnership firm, established in 1984 by Mr. Shantilal P Jain and family was converted to private limited in 2009. The company is engaged in the trading of stainless steel (SS) sheets, coils, pipes, rods and caters to traders and manufacturers in the power and auto component industries. It is led by Directors, Mr. Shantilal P Jain, Mr. Sripal Jain, Mr. Mahendra Jain and others.

List of key rating drivers and their detailed description

Strengths

Experienced management and healthy revenue growth: SSSS is a family run business. Mr. Shanthilal P Jain and his brothers are the promoter directors and have over three decades of experience. The second generation is actively involved since 2005.

The over three decades of experience has helped the company establish good relations with suppliers and customers. The company has over 1000 customers including traders and manufacturers across southern India. It has established relations with Jindal Steel Limited (JSL) and Steel Authority of India Limited (SAIL) for purchase of SS.

The total operating income (TOI) of the company grew at a Compounded Annual Growth Rate (CAGR) of ~19 per cent during the last four years ended FY2017 despite the weakened performance of the steel sector over three years. The revenue increased to Rs.232.83 crore in FY2017 (Provisional) from Rs.211.11 crore in FY2016 and Rs.165.99 crore in FY2015 due to increase in sales to existing and new customers by expanding operations through new branches and warehouses.

SMERA believes that SSSS will continue to benefit from its experienced management and long track record of operations.

Above average financial risk profile: The company has moderate networth of Rs.41.68 crore as on 31 March, 2017 (Provisional) compared to Rs.33.94 crore as on 31 March 31, 2016. The networth increased mainly on account of conversion of unsecured loans to equity. The gearing

stood moderate at 1.19 times as on 31 March, 2017 as against 1.43 times as on 31 March, 2016. The TOL/TNW ratio also stood moderate at 1.77 times as on 31 March, 2017 (Provisional) as against 1.71 times in the previous year.

The interest coverage ratio stood moderate at 1.62 times in FY2017 as against 1.57 times in FY2016.

Weaknesses

Working capital intensive operations: The GCA stood high at 164 days in FY2017 (Provisional) compared to 147 days in FY2016. The company had high debtor days of 81 days (as against 92 days in FY2016) and inventory of 77 days in FY2017 (as against 49 days in FY2016). Inventory increased over the previous year on account of year end purchases. The average cash credit utilisation stood high between ~86-92 per cent during January to June, 2017.

SMERA believes that the efficient working capital management will be crucial to the company in maintaining a stable credit profile.

Exposure to cyclicity in the steel industry and intense market competition: The company is exposed to inherent cyclicity in the steel industry due to its dependence on construction, automobile, consumer durables industries which are correlated to economic cycles. Further, the company is exposed to a highly fragmented and competitive steel trading industry due to lack of entry barriers which also limits the pricing flexibility.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook of SSSS will remain stable owing to the extensive experience of the promoter and long track record of operations. The outlook may be revised to 'Positive' if the company is able to scale up operations with improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or further weakening of profitability margins.

About the Rated Entity

For FY2016-17 (Provisional), SSSS reported profit after tax (PAT) of Rs.2.79 crore on operating income of Rs.232.83 crore, as compared to PAT of Rs.2.05 crore on operating income of Rs.211.11 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): CRISIL in the press release dated September 07, 2016 has suspended the rating of Salem Stainless Steel Suppliers Private Limited and has stated the following "The suspension of ratings is on account of non-cooperation by SSSSPL with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by

CRISIL, SSSSPL is yet to provide adequate information to enable CRISIL to assess SSSSPL's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information."

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit#	LT	21.40	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Cash Credit@	LT	23.00	SMERA BBB-/Stable (Assigned)	-	-	-	-	-	-
Letter of Credit	ST	13.00	SMERA A3 (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit#	NA	NA	NA	21.40	SMERA BBB-/Stable (Assigned)
Cash Credit@	NA	NA	NA	23.00	SMERA BBB-/Stable (Assigned)
Letter of Credit	NA	NA	NA	13.00	SMERA A3 (Assigned)

#Sublimit of Rs.0.50 crore SL OCC at Secunderabad.

#Sublimit of OCC – Inland/Import LC/Buyers Credit/LOC/LOU/Bank Guarantee – Rs.10.70 crore.

@ Includes Jindal Stainless Limited eDFS of Rs.13.00 crore and SAIL eDFS of Rs.10.00 crore.

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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