

Press Release

Salem Stainless Steel Supplies Private Limited

July 07, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 72.40 Cr. (Enhanced from Rs.57.40 Cr)
Long Term Rating	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/Stable)
Short Term rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three Plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.72.40 crore bank facilities of Salem Stainless Steel Suppliers Private Limited (SSSS). The outlook is '**Stable**'.

The rating upgrade reflects significant improvement in business risk profile, driven by substantial and sustained increase in scale of operations, and higher than estimated operating profitability. Revenues surpassed the estimates by 20 percent and showed y-o-y growth of 23 percent to Rs.321.61 crore in FY2018. Also, operating margin improved to 4.89 percent in FY2018 (Provisional) against 4.06 percent in FY2017. However, the ratings are constrained by geographical, supplier and product concentration in revenues.

The upgrade also factors in above-average financial risk profile marked by moderate capital structure. TOL/TNW was at 1.96 times in FY2018 vis-a-vis 1.81 times in FY2017. Interest Coverage Ratio (ICR) stood at 1.95 times in FY2018 as compared to 1.76 times in FY2017. Despite the marginal deterioration in TOL/TNW and ICR due to higher reliance on bank lines to fund its high inventory requirements, the figures remain comfortable. Net worth was comfortable at Rs.49.78 crore as on March, 2018 vis-à-vis Rs.41.91 crore as on March, 2017. Acuité believes that high utilisation on bank lines and its enhancement would remain a key rating sensitivity factor over the medium term.

Salem Stainless Steel Suppliers Private Limited (SSSS) was established as a partnership firm by Mr. Shantilal P Jain and his family in 1984. Later in 2009, it was converted into a private limited company. The current Directors of the company are Mr. Shantilal P Jain, Mr. Sripal Jain, Mr. Mahendra Jain, and other family members. SSSS is the largest authorised dealer of stainless steel for Jindal Stainless steel Limited (JSL) and Steel Authority of India Ltd (SAIL) in Southern India.

Key Rating Drivers

Strengths

- Experienced management and healthy revenue growth**

SSSS is a family run business. Mr. Shanthilal P Jain and his brothers are the Directors and have over three decades of experience. The second generation is actively involved since 2005. Over three decades of experience has helped the company deepen its relations with the suppliers and customers. The company has over 2000 plus customers including traders and manufacturers across southern India. It has established relations with JSL and SAIL for purchase of Stainless Steel (SS).

The total operating income (TOI) of the company grew at a compound annual growth rate (CAGR) of ~23 percent during the last three years ended FY2018. The revenue increased to Rs.321.61 crore in FY2018 (Provisional) from Rs.267.75 crore in FY2017 supported by healthy demand for stainless steel, deeper penetration into the Southern region to further strengthen its presence as the largest authorised dealer of JSL. It derives about 48 percent of its revenues from JSL, about 19 percent from SAIL and remaining from others. Acuité believes that SSSS will continue to benefit from its experienced management and long track record of operations in improving its business risk profile further over the medium term.

- Largest authorised dealer for stainless steel in Southern India**

SSSS continues to be the largest dealer in Southern India (caters to states – Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala). SSSS had an MOU of purchasing 7000 tonnes of stainless steel in FY2018 from JSL vis-à-vis it lifted around 8250 tonnes. The volumes of the 2nd largest dealer in Southern India are almost half the size of SSSS. Acuité believes that SSSS being the largest authorised dealer in Southern India, it benefits in terms of pricing and higher cash discounts. Since, SSSS is the largest stockiest with four warehouses in Chennai, one each in Cochin and Coimbatore, two in Hyderabad. It has the highest availability of inventory at any given point of time. This gives SSSS price advantage in terms of higher lifting of products and selling at premium prices and thereby getting incentives in the form of cash discounts for surpassing its MOU lifting target.

- Growth of SSSS directly linked with JSL's growth and its huge demand prospects for stainless steel in India**

JSL's revenue has been showing multi-fold growth over the past three years through FY2018 at a CAGR of 25.8 percent in value terms; also in volume terms, it is at about 21 percent majorly driven by demand from Western and Northern Region followed by Southern Region. Comparatively, SSSS's revenue grew at a CAGR of 23 percent in the same period despite a lower growth for JSL in the Southern Region.

The growth is driven by shift in demand to stainless steel from other commodity products like aluminum and other steel products by major end user industries like Indian Railways, construction, food processing, pharmaceuticals, consumer goods. Further, the growth is fueled by deeper penetration into the market with increasing customer base of 2000 plus, being the largest authorised dealer of near monopoly player - JSL in Southern India for stainless steel.

Acuité believes that the demand for stainless steel is expected to improve further backed by expected demand from architecture building construction (ABC) segment, new trends in auto sectors like SS fuel tanks, BS-VI compliant exhaust systems, SS bus body building, SS made railway wagons and coaches, food processing, pharma and consumer durable segments.

- **Above-average financial risk profile**

TOL/TNW has remained broadly in-line with estimates at 1.96 times in FY2018, as compared to estimate of 1.81 times. It is moderate due to high reliance on bank lines to fund its inventory requirements resulting from higher scale of operations. SSSS's comfortable net cash accruals and debt has led to comfortable NCA/TD and interest coverage ratio of 0.08 times and 1.95 times in FY2018 (Provisional) vis-à-vis 0.06 times and 1.76 times in FY2017. With improving topline underpinning higher net cash accruals, the debt protection metrics are expected to improve over the medium term.

Weaknesses

- **Geographical, supplier and product concentration in revenue**

SSSS has been in the trading of, majorly, stainless steel and other products like pipes/coils for more than three decades. However, almost 90 percent of its revenue is from Southern India, majorly Chennai. This makes SSSS's revenue growth dependent on regional impetus on infrastructure development. SSSS is exposed to supplier and product concentration risk as it primarily deals majorly in one category of product – stainless steel, from two major suppliers. It procured 48 percent from JSL, 18 percent from Salem steel plant of SAIL in FY2018 on provisional basis. The supplier and product concentration limit the company's bargaining power. Also, it derives around 80 percent of its revenues from trading of stainless steel. The supplier and product concentration will limit the business risk profile.

- **Moderate risk management policies**

SSSS maintains an average inventory of around 2-3 months for smooth running of operations. The inventory risk is moderate as SSSS is aware of the fast and slow moving products and orders accordingly. Also, there is no major price risk associated as these products have no particular useful life and don't face high pricing risk as they are not commodity products like steel and aluminum which is exposed to volatility in pricing.

SSSS offers credit period of around 60-80 days to its customers. There are debtors of more than 6 months of Rs.5.56 crore (~ 8.5 percent) out of total debtors of Rs.65.08 crore as on March, 2018 on provisional basis which has been coming down y-o-y from Rs.12.48 crore (~ 28.9 percent) out of total debtors of Rs.43.21 crore as on March, 2014. Debtors more than 6 months are mostly from various customers. However, there have been no instances of any bad debts written off in the past.

SSSS is exposed to supplier concentration risk as it primarily deals with two major suppliers. Around 48 percent from JSL, and 18 percent from Salem steel plant of SAIL in FY2018. The purchases are against payment. Other suppliers like BRG for pipes which are imported against LC are of higher credit period. However, longstanding presence with continued rewards from JSL and SAIL mitigates the supplier risk.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SSSS to arrive at this rating.

Outlook: Stable

Acuité believes that the outlook on 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 SSSS diversifies revenue geographically while sustaining profitability margins, maintains capital structure, and manages incremental working capital requirement prudently. The outlook may be revised to 'Negative' if there is considerable delay in realisation of receivables exerting pressure on working capital limit utilisation, or if SSSS undertakes larger-than-expected, debt-funded capital expenditure, thereby weakening its financial risk profile, particularly liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	321.61	261.14	211.11
EBITDA	Rs. Cr.	15.73	10.61	9.35
PAT	Rs. Cr.	4.99	3.02	2.05
EBITDA Margin	(%)	4.89	4.06	4.43
PAT Margin	(%)	1.55	1.16	0.97
ROCE	(%)	14.04	11.87	11.64
Total Debt/Tangible Net Worth	Times	1.45	1.41	1.43
PBDIT/Interest	Times	1.95	1.76	1.57
Total Debt/PBDIT	Times	4.47	5.22	5.02
Gross Current Assets (Days)	Days	153	151	147

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

None

Applicable Criteria

- Entities In Trading Sector - <https://www.acuite.in/view-rating-criteria-6.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12-Sep-2017	Cash Credit#	Long term	21.40	ACUITE BBB-/Stable (Assigned)
	Cash Credit@	Long term	23.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Long term	13.00	ACUITE 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.

*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	Not Applicable	Not Applicable	Not Applicable	61.00	ACUITE BBB/Stable (Upgrade)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A3+ (Upgrade)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE BBB/Stable (Upgrade)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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