

Press Release

Salem Stainless Steel Supplies Private Limited

August 22, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 72.40 Cr.
Long Term Rating	ACUITE BBB/ Stable (Reaffirmed)
Short Term rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.72.04 crore bank facilities of Salem Stainless Steel Suppliers Private Limited (SSSS). The outlook is '**Stable**'.

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 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.

Analytical Approach

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

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. Acuite 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 of 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 volume of the 2nd largest dealer in Southern India is almost half the size of SSSS.

Acuite 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 (Provisional) 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 and 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.

Acuite 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 estimate at 1.96 times in FY2018 (Provisional) 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 limits 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 does not 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.

Outlook: Stable

Acuite 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 noncooperation 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

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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
07-Jul-2018	Cash Credit	Long term	61.00	ACUITE BBB/Stable (Upgraded)
	Letter of Credit	Long term	11.00	ACUITE A3+ (Upgraded)
	Proposed Bank facility	Long term	0.40	ACUITE BBB/Stable (Upgraded)
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	69.00	ACUITE BBB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Reaffirmed)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE BBB/Stable (Reaffirmed)

^ LC is a sub-limit of CC up to Rs.13.00 crore

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About Acuite Ratings & Research:

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