

Press Release

Salem Stainless Steel Supplies Private Limited

September 17, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 84.40 Cr. (Enhanced from Rs. 72.40 Cr)
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.72.40 crore bank facilities, and assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.12.00 crore bank facilities of SALEM STAINLESS STEEL SUPPLIERS PRIVATE LIMITED (SSSS). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates backed by diversified product profile and experience of the promoters. SSSS reported a revenue of Rs.370.50 crore for FY2019 (provisional); a growth of about 14.40 per cent over FY2018. Further, the ratings continue to reflect the experienced management and established track record of operations and above-average financial risk profile. However, it is constrained by working capital intensive operations and geography risk.

Salem Stainless Steel Supplies Private Limited 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 Sripal Jain, Mr Manish Jain, Mr Abhishek Jain and Mr Vipul Jain. SSSS is the largest authorised dealer of stainless steel for Jindal Stainless steel Limited (JSL) and Steel Authority of India Limited SAIL in Southern Region.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SSSS to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and healthy revenue growth**

The Directors, Mr Sripal Jain, Mr Manish Jain, Mr Abhishek Jain and Mr Vipul Jain who have over a decade of experience. 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 ~21 per cent during the last four years ended FY2019 (Provisional). The revenue increased to Rs.370.50 crore in FY2019 (Provisional) from Rs.317.18 crore in FY2018 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 45 per cent of its revenues from JSL, about 16 per cent from SAIL and remaining from others for FY2019 vis-à-vis 50% and 20% for FY2018. Acuité believes that the industry experience and domain knowledge of the management and long standing relationship with its clientele are expected to support in improving its business risk profile further over the medium term.

- Largest authorised dealer, growth linked with JSL's growth and huge demand prospects for stainless steel in India**

SSSS is largest authorised dealer of stainless steel for Jindal Stainless Limited (JSL) and continues to be largest dealer in Southern India (caters to states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala). SSSS had an MOU of purchasing 8000 tonnes of stainless steel in FY2019 and FY2018 from JSL. SSSS is the largest stockiest with seven warehouses in Chennai, Cochin and

Coimbatore, Hyderabad. It has the highest availability of inventory at any given point of time. The revenue growth is driven by shift in demand to stainless steel from other commodity products such as aluminum and other steel products by major end user industries such as 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. Acuité believes that though 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 such as 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, the revenue growth is expected to see moderation owing to high revenue base.

- **Above average financial risk profile**

SSSS's financial risk profile is above average, marked by a moderate networth, moderate gearing (debt-to-equity), total outside liabilities to tangible networth (TOL/TNW) and moderate debt protection metrics. SSSS's networth is moderate at Rs.54.56 crore as on March 31, 2019 as against Rs.46.89 crore in FY2018. Its gearing and TOL/TNW are higher than the expectations, however, moderate at 1.91 times and 2.02 times as of March 31, 2019 against 1.76 times and 2.36 times in FY2018. SSSS has generated cash accruals Rs.5.62 crore in FY2019 (Provisional) and they are expected to be in the range of Rs.6.0 crore - Rs. 7.50 crore over the medium term with a repayment obligation about Rs.1.50 crore over the same period. The revenues of the company increased by around 15 per cent to Rs.370.50 crore during 2018-19, while its operating margins were moderate/remained stable in the range of 5 per cent. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.05 per cent and 1.74 times, marginal deterioration from 0.07 times and 1.92 times in FY2018. Acuité believes that with expected improvement in revenues and growth in profitability, the financial risk profile is expected to improve further over the medium term.

Weaknesses

- **Moderate working capital operations**

The company's operations are moderately working capital intensive in nature as reflected by its gross current asset (GCA) days of around 143 days as on March 31, 2019 (provisional) as against 169 days in FY2018. SSSS offers credit period of around 60-80 days to its customers. SSSS maintains an average inventory of around 2-3 months of various varieties and grades for smooth running of operations and no stock out position to lose business. The inventory risk is moderate as SSSS is aware of the fast and slow moving products and orders accordingly. Higher inventory is also owing to major portion of purchases from two major suppliers - Jindal Steel and SAIL of about 43 and 16 per cent in FY19, though reduced from 50 and 20 per cent in FY2018. This leads to lifting of stocks in bulk, either to avail bulk discount or to overcome any stock out positions. All its purchases are against payment only leading to high utilisation of its working capital limits at about 92 per cent for last six months through June, 2019. Acuité believes that with competitive and trading nature of operations, the company needs to maintain inventory while offering credit keeps the operations working capital intensive.

- **Geographical and supplier concentration**

SSSS is in trading of stainless steel and other products like coils, pipes, tubes, flats, etc and in all series of SS ranging from 200, 300 to 400 for more than three decades. Its revenue is more than 95 per cent from Southern India, majorly Chennai about 75 per cent. It procured around 43 per cent from JSL, and 16 percent from Salem steel plant of SAIL in FY19 vis-a-vis 50 per cent and 20 per cent in FY2018. The supplier and product concentration limits the company's bargaining power.

Liquidity position

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations and cushion in its working capital lines. SSSS generated cash accruals of Rs.5.72 crore during FY2019. The cash accruals are estimated to remain around Rs.6.00 crore - Rs. 7.50 crore during 2020-22 while its repayment obligation are estimated to be around Rs.1.25 crore -Rs. 1.50 crore. The operations are moderately working capital intensive as marked by gross current asset (GCA) days of 143 in FY 2019. This has led to high reliance on working capital borrowings, the cash credit limit Rs.82 crore is utilized at 92 per cent during the last 6 months period ended July 2019. Further, increasing working capital requirement lead to infusion of unsecured loans by promoters of about Rs.5 crore in FY2019, which stands at about Rs.18 crore as of March 31, 2019. SSSS maintains unencumbered cash and bank balance of Rs.10.19 crore as of March 31, 2019 against Rs.14.55 crore in FY2018. The current

ratio was comfortable at 1.75 times as of March, 2019. Acuité believes that regular support by way of infusion of unsecured loans is critical factor to support the liquidity for the increasing scale of operations and incremental working capital requirements besides moderate support from accruals.

Outlook: Stable

Acuité believes that the outlook on SSSS will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while diversifying the geographies maintains the profitability and improves its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant unplanned debt-funded capital expenditure leading to deterioration of its capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	370.50	317.18	227.00
EBITDA	Rs. Cr.	18.86	15.80	10.61
PAT	Rs. Cr.	5.36	4.98	3.02
EBITDA Margin	(%)	5.09	4.98	4.68
PAT Margin	(%)	1.45	1.57	1.33
ROCE	(%)	13.11	14.63	12.58
Total Debt/Tangible Net Worth	Times	2.00	1.76	1.16
PBDIT/Interest	Times	1.74	1.92	1.76
Total Debt/PBDIT	Times	5.41	4.99	4.30
Gross Current Assets (Days)	Days	143	169	174

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Aug-2018	Cash Credit^	Long Term	69.00	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.40	ACUITE BBB/Stable (Reaffirmed)
07-July-2018	Cash Credit^	Long Term	61.00	ACUITE BBB/Stable (Upgraded)
	Letter of Credit	Short 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 A3+ (Assigned)
	Letter of Credit	Long Term	13.00	ACUITE BBB/Stable (Assigned)

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

#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. Cr.)	Ratings/Outlook
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Assigned)
Overdraft**	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/Stable (Reaffirmed)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Assigned)
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)

Note: *LC Rs.13 Cr, SBLC Rs.13 Cr, financial BG Rs.1.50 Cr, Performance BG Rs.1.50 Crs are sub-limits under Cash Credit.

**Working Capital Loan Rs.7.00 Crs Sub-limit of over Draft (OD); import Documentary Credits Rs.17 Crs is a sub-limit combined Limit Rs.22 Crs, Loan against Import Rs.17 Crs, Import Deferred Payment Credits Rs.17 Crs, Buyers Credit Rs.17 Crs are Sub-Limit under Overdraft Facility.

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About Acuité Ratings & Research:

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