

Press Release

Salem Stainless Steel Supplies Private Limited

February 24, 2021

Rating Reaffirmed and Withdrawn



Total Bank Facilities Rated*	Rs. 79.00 Cr. (Reduced from Rs. 84.40 Cr)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.79.00 Cr, bank facilities of Salem Stainless Steel Supplies Private Limited (SSSS). The outlook is '**Stable**'.

Acuite has withdrawn its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.18.40 Cr bank facilities of Salem Stainless Steel Supplies Private Limited (SSSS).

The rating is reaffirmed taking cognizance of company's steady operational performance and moderate business risk profile supported by its established market position, diversified product profile, extensive experience of the promoters spanning over 35 years in the steel trading industry, established relationship with its principles Jindal Stainless steel Limited (JSL) and Steel Authority of India Limited (SAIL), diversified operations across south India ensuring repeated orders. However, the ratings are constrained by SSSS's high working capital intensive nature of its operations, low operating margin due to the trading nature of business, and a highly fragmented nature of the industry, characterised by intense competition. This, coupled with the cyclical nature associated with the steel industry, is likely to keep the revenues and cash flows volatile in the future. The ratings are further constrained by high geographical concentration risks, as a major portion of its sales is generated from Tamilnadu.

Salem Stainless Steel Supplies Private Limited (SSSS) is a Chennai (Tamilnadu) based company which 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 day to day operations are managed by the current Directors - Mr. Sripal Jain, Mr.Manish Jain, Mr. Abhishek Jain and Mr. Vipul Jain. SSSS is the largest authorised dealer for trading of various stainless steel products for Jindal Stainless steel Limited (JSL) and Steel Authority of India Limited SAIL in Southern Region. Additionally, the company is an authorised agent for selling various steel products of reputed steel manufacturers like Cu-Fe-Al Alloys (Pvt) Ltd, Riadi Steels LLP, Vishal Metal & Mining Corporation, Rishi Steels & Tubes, Stratus Steel DMCC, Joy Reap Metal India Private Limited, Rabirun Vinimay Private Limited among others. The company mainly operates in Chennai and sells steel primarily to original equipment manufacturer (OEM) entities and traders.

Analytical Approach

Acuite 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 long association with reputed suppliers JSL and SAIL**

The Directors, Mr Sripal Jain, Mr Manish Jain, Mr Abhishek Jain and Mr Vipul Jain have about 2 decades of experience in the steel trading business. The extensive experience of the promoters and their presence in the industry for the past 3 decades, healthy demand for stainless steel, deeper penetration into the Southern region has benefited the SSSS as reflected in revenue CAGR of 17.28 percent during the period FY2017-FY2020. SSSS is the one of the largest dealer with 10 warehouses across Chennai (4), Hyderabad (3)

and each 1 in Cochin and Coimbatore, and it had establish large clientele of more than 2000 dealers including manufacturers and traders across southern India. It has over 2 decades of established relations with Jindal Stainless Limited (JSL) and Steel Authority of India Limited (SAIL) for purchase of Stainless Steel (SS). It derives about 31 per cent of its revenues from JSL, about 17 per cent from SAIL and remaining from others for FY2019 vis-à-vis 45 percent and 16 percent for FY2019. Company reported the revenues of Rs. 1.63 Cr in 10M FY2021 and is estimated to generate revenue of about Rs.250 Cr for FY2021; revenues are expected to decline by ~30 percent as against FY2020 owing to the Covid-19 pandemic. The revenue growth is expected to recover to pre-Covid levels in FY2022 owing to expected ramp-up in its key end-user industries. Acuite believes that the industry experience and domain knowledge of the management, long standing relationship with its clientele are expected to support its business risk profile over the medium term and Increase in scale of operations and improvement of operating profitability remain key rating sensitivity factors.

• **Above-average financial risk profile**

The SSSSPL has above-average financial risk profile marked by moderate net worth, leveraged capital structure and moderate debt protection matrices. The net worth improved marginally to Rs.51.93 Cr as on 31 March 2020 from Rs.49.02 Cr as on 31 March 2019. Acuite has treated the unsecured loans from promoters of Rs.6 Cr as quasi-equity. Its gearing and TOL/TNW high at 2.07 times and 2.36 times as of March 31, 2020 against 2.19 times and 2.47 times as on March 31, 2019. The total debt as on 31 March 2020 mainly comprised of working capital limits from the banks. The increase in the interest cost coupled with deterioration in the profitability levels resulted in deterioration in the debt protection matrices. The net cash accruals to total debt (NCA/TD) and interest coverage ratio for FY 2020 were at 0.03 per cent and 1.36 times, deteriorated from 0.05 times and 1.70 times in FY2019. The debt to EBITDA levels continued to remain high at 5.92 times for FY2020 as against 5.63 times for FY2019 mainly due to lower margins on account of trading nature of business. Acuite believes that the financial risk profile is expected to remain at the similar levels in the absence of any major debt funded capex in near to medium term.

Weaknesses

• **Working capital intensive nature of operations**

The company's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 151-169 days during last 3 years ended with as on March 31, 2020. SSSS offered credit period of around 74-87 days to its customers during last 3 years ended March 31, 2020. Its inventory days stood at 65-72 days to its customers during last 3 years ended March 31, 2020. SSSS maintains an average inventory of around 2-3 months of various varieties and grades for smooth running of operations. As majority of SSSS's payment terms with suppliers are in advance, the incremental net working capital requirements are partially managed by way of promoter unsecured loans and reliance on short term borrowings. All its purchases are against payment only leading to moderate utilisation of its working capital limits at about 74 per cent for last six months through December 2020. Acuite believes that with competitive and trading nature of operations, the company needs to maintain inventory while offering credit keeps the operations working capital intensive and the management of working capital cycle shall be monitored closely.

• **Modest operating margin due to trading nature of business, and limited bargaining power with key principals**

SSSPL is an authorized distributor of Steel Authority of India Limited (SAIL), and Jindal Steel products. Its entire operations and business performance are highly dependent on the performance of its key principals. Furthermore, limited value addition owing to trading nature of business led to modest operating margin at 4.63-5.00 percent over the 4 years through FY2020, despite revenue increasing. While principals provide price protection for the purchases made in particular month, any inventory risk has to be borne by SSSSPL. Despite healthy market position in Tamilnadu, the state accounts about 75 percent of its total revenues, Telangana 16 percent and Kerala 7 percent. Acuite believes that due to limited value addition and low bargaining power, the margins are expected to remain in the similar range over the medium term.

• **Exposure to risks related to cyclicity in the steel sector and geographical concentration**

The steel industry is inherently cyclical and susceptible to global steel prices. Demand for steel is derived from sectors such as real estate, construction, and infrastructure, which are linked to economic cycle. While there has been a significant push by the government for steel-intensive sectors such as railways and infrastructure, any economic downturn will adversely affect demand. . The price risks are accentuated by the freehold nature of the inventory maintained by the company. Further, SSSSPL competes with various players in the steel trading industry segment, thus limiting the pricing power. Additionally, SSSSPL's revenue is mainly derived from the state of Tamilnadu, which exposes geographical concentration. The established dealer network and customer relationships the promoters have helped partly mitigate this risk.

Rating Sensitivities

- Substantial improvement in scale of operations and profitability levels
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Liquidity position: Adequate

SSSS has adequate liquidity position marked by adequate net cash accruals to its maturing debt obligations albeit constrained by working capital intensity. SSSS has generated cash accruals of Rs.3.62-5.67 Cr during FY18-FY20 as against repayment obligation of about Rs.0.60-1.50 Cr over the same period. SSSSPL is expected to be in the range of Rs.4.00 Cr- Rs. 5.50 Cr over the medium term with a repayment obligation about Rs.1.25-1.50 Cr over the same period. The company's operations are moderately working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 151-169 days during last 3 years ended with as on March 31, 2020. The SSSS maintains unencumbered cash and bank balances of Rs.4.59 Cr as on March 31, 2020. The Current ratio is comfortable at 1.76 times as on March 31, 2020. Acuite believes that the liquidity of the SSSS is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation and moderate utilisation of its working capital limits.

Outlook: Stable

Acuite believes that SSSS will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the SSSS registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the SSSS registers lower-than-expected growth in revenues and profitability or in case of deterioration in the SSSS's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	367.25	370.90
PAT	Rs. Cr.	2.92	5.13
PAT Margin	(%)	0.79	1.38
Total Debt/Tangible Net Worth	Times	2.07	2.19
PBDIT/Interest	Times	1.36	1.70

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

Not Applicable

Any other information

Not Applicable

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
30-Dec-2019	Cash Credit	Long Term	22.00	ACUITE BBB/Stable (Reaffirmed)
	Overdraft	Long Term	19.00	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB/Stable (Reaffirmed)
	Inventory Funding	Long Term	10.00	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)
17-Sept-2019	Cash Credit	Long Term	20.00	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB/Stable (Reaffirmed)
	Overdraft	Long Term	19.00	ACUITE BBB/Stable (Reaffirmed)
	Inventory Funding	Long Term	10.00	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.40	ACUITE BBB/Stable (Reaffirmed)
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)

*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	22.00	ACUITE BBB/Stable (Reaffirmed)
Overdraft#	Not Applicable	Not Applicable	Not Applicable	27.00	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 (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.40	ACUITE BBB (Withdrawn)

@Cash Credit Rs.22 Cr, Working Capital Demand Loan Rs.20 Crs, SBLC Rs.13 Cr, Letter of Credit Rs.13 Cr and Bank Guarantee Rs.1.50 Cr are sublimit to working capital limit of Rs.22 Cr

Overdraft Rs.27 Cr, Import Documentary Credits Rs.27 Cr are a sub-limits to combined Limit of Rs.22 Cr, Working Capital Loan Rs.7.00 Cr Sub-limit of over Draft (OD), Loan against Import Rs.17 Cr, Import Deferred Payment Credits Rs.17 Cr, Domestic Purchase Finance Rs.17 Cr are Sub-Limit under Import Documentary Credits..

\$Working Capital Demand Loan Rs.30 Cr, Letter of Credit Rs.10 Cr, SBLC Rs.10 Cr, Bill Discounting Rs.5 Cr, Bank Guarantee Rs.5 Cr are sublimit to Cash Credit Rs.30 Cr

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About Acuité Ratings & Research:

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