

Press Release

Honest Enterprises Private Limited

17 October, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 30.00 Cr
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs. 30 crore bank facility of Honest Enterprises Private Limited (HEPL). The outlook is '**Stable**'.

The Vadodara-based Honest Enterprises Private Limited (HEPL) was incorporated in 1999 by Mr. Laxmichand Vaghela, Mr. Samudevi Vaghela, Mr. Hitesh Vaghela and others family members. The company was converted to private limited from public limited in July, 2016. The company is engaged in the trading of stainless steel flat products including coils, plates, sheet, pipes, circles among others. Steel is sourced from domestic steel manufacturers as also imported from USA, China, Dubai and other countries. The warehousing facility is located at Waghodia, Vadodara (Gujarat). HEPL caters to industrial clusters across India.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters

The company has been trading in stainless steel products for almost two decades and has established long term relations with reputed suppliers including Jindal Stainless Limited, Steel Authority of India Limited and Shah Alloys Limited. The company supplies steel mainly to engineering and industrial goods manufacturing companies in India. The promoters, Mr. Laxmichand Vaghela and Mr. Hitesh Vaghela collectively possess around four decades of experience in the metal trading industry. The experienced promoters have helped HEPL maintain established relations with customers and suppliers.

Diversified clientele

HEPL caters to a diversified client base. The top 10 customers constitute only 29 percent of the total revenue for FY2017 (Provisional). The company has a customer base of around 250 all over India. The products traded by HEPL are largely used in the engineering and industrial goods segment. Further, the company has established relations with its key suppliers including Jindal Stainless Limited and Steel Authority of India (SAIL).

Weaknesses

Modest scale of operations alongwith declining trend

The scale of operations is modest despite the company being in business for almost two decades. The company reported operating income of Rs.121.59 crore for FY2016 as against Rs.123.88 crore in the previous year. The declining revenue trend is mainly on account of curb on steel imports by the government. The imported steel contributed substantially to the turnover and margins during the previous year. Further, the company reported operating income of Rs. 83.14 crore for FY2017 (Provisional) registering fall of 32 percent

Working capital intensive operations

The operations are working capital intensive marked by gross current asset days (GCA) of 120 for FY2017 (Provisional) as against 104 in the previous year. The stretched GCA days are due to stretched receivable days at 114 for FY2017 (Provisional) as against 84 days in the previous year. Further, the average cash credit limit utilisation stood at ~ 95 for the last six months ended 30 June, 2017.

Profitability susceptible to volatility in raw material prices, forex rates

HEPL reported operating margin of 1.44 percent for FY2017 (Provisional) as against 1.45 percent in FY2016 and 2.36 percent in FY2015. Further, HEPL reported PAT margin of 0.77 percent for FY2017 (Provisional) as against 0.22 percent in the previous year. The PAT for FY2017 (Provisional) is entirely supported by non-operating income. The decline in operating margin in FY2016 is mainly on account of increase in raw material cost as a percentage of total sales and forex loss of Rs.0.98 crore incurred in FY2016 as against gain of Rs.0.02 in the previous year. The material cost constituted around 97 percent of the total sales for FY2016. The main product of the company is stainless steel, the prices of which are highly volatile. The company imports around 24 percent of its total purchases from China, Singapore, USA and exports around six percent. Hence, the profitability of the company is exposed to volatility in raw material prices and forex rates in the absence of adequate hedging mechanism.

Highly fragmented and competitive steel industry

The stainless steel industry is highly fragmented with both organised and unorganised players. Hence, HEPL faces stiff competition which limits its pricing flexibility.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

Applicable Criteria

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

Outlook: Stable

SMERA believes that HEPL will maintain a stable outlook over the medium term on account of its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while maintaining a comfortable liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its liquidity profile or financial risk profile due to higher than anticipated working capital requirements.

About the Rated Entity –Key Financials

For FY2016-17 (Provisional), HEPL reported profit after tax (PAT) of Rs.064 crore on operating income of Rs.83.14 crore compared with PAT of Rs.0.27 crore on operating income of Rs. 121.59 crore in the previous year. The networth of the company stood at Rs.16.81 crore as on 31 March, 2017 (Provisional) as against Rs. 15.74 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not applicable

***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	N.A	N.A	N.A	6.50#	SMERA BB-/Stable (Assigned)
Electronic Dealer Finance	N.A	N.A	N.A	9.90	SMERA A4+ (Assigned)
Discount Recourse under Letter of Credit	N.A	N.A	N.A	2.10	SMERA A4+ (Assigned)
Letter of Credit	N.A	N.A	N.A	11.50^	SMERA A4+ (Assigned)

Includes sublimit of Buyers Credit/Letter of Credit to the extent of Rs 6.50 crore; Bank Guarantee to the extent of Rs. 4.27 crore, PSR limit of Rs. 100.00 crore and Letter of Credit of Rs. 6.50 crore.

^ Includes sublimit of Buyers Credit/Letter of Credit to the extent of Rs 6.50 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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