

Press Release

Honest Enterprises Private Limited

October 29, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 30.00 crore bank facilities of Honest Enterprises Private Limited (HEPL). The outlook is '**Stable**'.

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

Analytical Approach

Acuité has considered the standalone business and financial risk profile of HEPL for arriving at the rating.

Key Rating Drivers

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 around 30-35 percent of the total revenue. The company has a customer base of around 250 companies 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

- **Working capital intensive operations**

The operations are working capital intensive marked by Gross Current Asset (GCA) days of 118 in FY2018 as against 136 in the previous year. The debtor days stood at 48 in FY2018 as against 66 days in the previous year. Further, the average cash credit limit utilisation stood at ~ 80-90 percent for the last six months ending September, 2018.

• **Profitability susceptible to volatility in raw material prices and forex rates**

HEPL reported operating margin of 0.67 percent in FY2018 as against 1.50 percent in FY2017 and 1.45 percent in FY2016. Further, HEPL reported PAT margin of 1.08 percent in FY2018 as against 0.89 percent in the previous year. The PAT for FY2018 is entirely supported by non-operating income. Further, PAT in FY2018 is also supported by income generated from sale of investment in subsidiary company. The decline in operating margin in FY2018 is mainly on account of increase in raw material cost. The material cost constituted around 97 percent of the total sales for FY2018. The main product of the company is stainless steel, the prices of which are highly volatile. Further, the company imports around 60-70 percent of its total purchases from China, Singapore and USA. Hence, the profitability of the company is exposed to volatility in raw material prices and forex rates in the absence of adequate hedging mechanism. Although, the risk of forex rate is covered to the extent of 50 percent by way of forward contracts.

• **Highly fragmented and competitive industry**

The stainless steel industry is highly fragmented with organised and unorganised players. Hence, HEPL faces stiff competition from these players which limits the pricing flexibility of the company.

Outlook: Stable

Acuité 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	124.55	83.10	121.59
EBITDA	Rs. Cr.	0.84	1.24	1.77
PAT	Rs. Cr.	1.35	0.74	0.27
EBITDA Margin	(%)	0.67	1.50	1.45
PAT Margin	(%)	1.08	0.89	0.22
ROCE	(%)	11.89	8.65	11.77
Total Debt/Tangible Net Worth	Times	0.81	0.76	0.93
PBDIT/Interest	Times	2.07	1.65	1.29
Total Debt/PBDIT	Times	3.94	4.78	7.76
Gross Current Assets (Days)	Days	118	136	104

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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. Cr.)	Ratings/Outlook
17-Oct-2017	Cash Credit	Long Term	6.50#	ACUITE BB- / Stable (Assigned)
	Electronic Dealer Finance	Short Term	9.90	ACUITE A4+ (Assigned)
	Discount Recourse under Letter of Credit	Short Term	2.10	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	11.50^	ACUITE 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

*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	6.50#	ACUITE BB- / Stable
Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	9.90	ACUITE A4+
Discount Recourse under Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.10	ACUITE A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	11.50^	ACUITE A4+

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About Acuité Ratings & Research:

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