

Press Release

Shah Brothers Ispat Private Limited

07 November, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 395.00 Cr
Long Term Rating	SMERA BBB/Stable (Assigned)
Short Term Rating	SMERA A3+ (Assigned)

**Refer Annexure for details*



Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (read as **SMERA triple B**) and short-term rating of '**SMERA A3+**' (read as **SMERA A Three Plus**) on the Rs. 395.00 crore bank facilities of Shah Brothers Ispat Private Limited (SBIPL). The outlook is '**Stable**'.

Shah Brothers Ispat Private Limited, a partnership firm was established in 1958 by Mr. Chinubhai Shah and Mr. Pravin Mehta and converted to private limited in 2004. The company is engaged in the trading of iron and steel products (boiler quality steel plates, vessel steel plates, HR Coils, Mild Steel Plates among others) that are supplied to industrial boiler manufacturing companies across the country. The company accredited ISO 9001:2000 has stock-yard facility spread across 30,000 sq. meters with overhead cranes of 35 MT load capacity at Taloja. It has five other warehouses at Hyderabad, Ahmedabad, Trichy, Bangalore and Chennai. The company is headed by Mr. Rajesh Shah and Mr. Sanjiv Mehta.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations and experienced management:

SBIPL has six decades of operations in the steel trading business. The established presence in the market has helped the company develop and maintain long standing relations with reputed suppliers and customers. The promoters, Mr. Rajesh Shah and Mr. Sanjiv Mehta collectively possess around three decades of experience in the industry.

Healthy financial risk profile:

The financial risk profile is healthy marked by adjusted networth of Rs. 113.66 crore as on 31 March, 2017 (Provisional) as against Rs. 109.06 crore as on 31 March, 2016. The adjusted gearing ratio stood at 0.16 times as on 31 March, 2017 (Provisional) as against 0.31 times as on 31 March, 2016. The adjusted networth and gearing has been arrived at after considering interest bearing unsecured loan of Rs. 16.44 crore from related parties as quasi equity as the same is subordinated to bank debt. The interest coverage ratio (ICR) stood at 1.19 times (Provisional) for FY2017 and Debt service coverage ratio (DSCR) stood at 1.17 times. The adjusted total liabilities to tangible networth (TOL/TNW) stood at 3.43 times as on 31st March, 2017 (provisional) as against 3.20 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.28 times in FY 2017 (Provisional) as against 0.10 times in FY 2016. Return on capital employed (RoCE) stood at 27.55 times in FY 2017 (Provisional) as against 20.62 times in FY 2016.

Going forward, SMERA expects the SBIPL to maintain its financial risk profile on account of improvement in the net cash accruals and moderate working capital requirement.

Weaknesses:

Working capital intensive nature of operations: The operations of SBIPL are working capital intensive marked by its gross current assets (GCA) of 212 days in FY2017 (Provisional) when compared to 193 days in FY2016. The GCA days are high on account of high debtor days of 132 days for FY2017 as against 127 days in FY2016. Further, the inventory days stood at 71 days for FY2017 as against 58 days in FY2016. The inventory increased when compared to the previous year on account of year end purchases. However, the same was converted to sales in the first quarter of FY2017-18. Further, the average cash credit utilisation stood at ~63.16 per cent for the last six months ended September, 2017.

Low profitability margins and the same are susceptible to raw material prices: SBIPL reported EBITDA margin of 4.29 percent for FY2017 (Provisional) as against 3.41 percent in the previous year. The improvement in the margins is mainly on account of decline in selling expenses which majorly included bad debts in the previous year. However, the profit after tax (PAT) margin is thin at 0.53 percent for FY2017 (Provisional) as against 0.43 per cent in the previous year mainly on account of high interest cost on bank borrowings and unsecured loan. Further, the margins of the company are susceptible to fluctuations in the raw material prices i.e. steel prices.

Exposure to cyclicity in the steel industry and intense competition: SBIPL is exposed to inherent cyclicity in the steel industry and the intense competition from established players.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

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 the outlook of SBIPL will remain stable owing to its established presence in the steel trading industry and extensive experience of the promoter. The outlook may be revised to 'Positive' if the company reports significant growth in revenue and profitability along with maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant decline in net cash accruals and deterioration in the financial risk profile due to higher than expected working capital requirement.

About the Rated Entity –Key Financials

For FY2016-17 (Provisional), SBIPL reported profit after Tax (PAT) of Rs. 4.07 crore on operating income of Rs. 771.01 crore as against PAT of Rs. 3.21 crore on operating income of Rs. 752.49 in the previous year. The net worth stood at Rs. 113.66 crore as on March 31, 2017 (Provisional) as against Rs. 109.06 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): CRISIL, vide release dated November 03, 2016 has suspended the ratings of SBIPL on account of lack of adequate information required for monitoring of ratings.

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.	16.50	SMERA BBB/Stable (Assigned)
Cash Credit	N.A	N.A	N.A.	7.70	SMERA BBB/Stable (Assigned)
Cash Credit	N.A	N.A	N.A.	4.50	SMERA BBB/Stable (Assigned)
Cash Credit	N.A	N.A	N.A.	4.50	SMERA BBB/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A.	12.50	SMERA A3+ (Assigned)
Letter of Credit	N.A	N.A	N.A.	168.50	SMERA A3+ (Assigned)
Bank Guarantee	N.A	N.A	N.A.	3.74	SMERA A3+ (Assigned)
Letter of Credit	N.A	N.A	N.A.	82.26	SMERA A3+ (Assigned)
Bank Guarantee	N.A	N.A	N.A.	3.25	SMERA A3+ (Assigned)
Letter of Credit	N.A	N.A	N.A.	43.75	SMERA A3+ (Assigned)
Bank Guarantee	N.A	N.A	N.A.	3.25	SMERA A3+ (Assigned)
Letter of Credit	N.A	N.A	N.A.	43.75	SMERA A3+ (Assigned)
Proposed Letter of Credit	N.A	N.A	N.A.	0.80	SMERA A3+ (Assigned)

Note on complexity levels of the rated instrument:

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

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Aishwarya Phalke, Rating Analyst, Tel: 022-67141156 Email: aishwarya.phalke@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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