

Press Release

Shah Brothers Ispat Private Limited

February 01, 2019

Rating Downgraded Outlook Revised



Total Bank Facilities Rated*	Rs.395.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Negative (Downgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.395.00 crore bank facilities of Shah Brothers Ispat Private Limited. The outlook has been revised to '**Negative**' from '**Stable**'.

The rating downgrade is in view of significant liquidity pressures resulting in intermittent irregularities in servicing working capital facilities with the banks. The liquidity pressure is mainly on account of delayed realizations from its clients.

The revision in the outlook is based on Acuite's expectation that, the liquidity profile is expected to be under stress over near to medium term. Any further deterioration in the liquidity will impart a further downward bias to the rating.

Shah Brothers Ispat Private Limited (SBIPL), was established in 1958 as a partnership firm 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 is currently headed by Mr. Rajesh Shah and Mr. Sanjiv Mehta. SBIPL 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SBIPL to arrive at this rating.

During the last rating exercise, the unsecured loans to the tune of Rs.16.44 crore were considered as quasi equity based on the undertaking by the promoters that they would be subordinated to bank facilities. However, Acuite has observed certain repayments of these loans in FY2018 and hence the balance has been treated as debt.

Key Rating Drivers

Strengths

- **Established presence the steel trading segment**

SBIPL has six decades of operations in the steel trading business. The company was incorporated by Mr. Chinubhai Shah and Mr. Pravin Mehta in 1958 and it is currently handled by second generation comprising Mr. Rajesh Shah and Mr. Sanjiv Mehta. The promoters, Mr. Rajesh Shah and Mr. Sanjiv Mehta collectively possess around three decades of experience in the steel trading segment.

SBIPL majorly deals in trading of boiler quality steel plates which contribute around 75 percent of its total revenues. The established presence in the market has helped the company develop and maintain long standing relations with reputed suppliers and customers.

Acuite believes that the company will continue to be benefited by its established presence in the market and experienced promoters over medium term.

Weaknesses

- **Working capital intensive nature of operations marked by stretched receivables**

The operations of SBIPPL continued to be working capital intensive marked by its gross current assets (GCA) of 198 days in FY2018 against 207 days in FY2017. The high GCA days on account of stretched receivables of 138 days for FY2018 as against 133 days in FY2017. Out of total receivables of Rs.265.06 crore as on 31 March 2018, Rs.121.28 crore are above six months, in which Rs.72.94 crore are considered doubtful on account of pending litigations against them. The inventory days stood at 48 days for FY2018 as against 69 days in FY2017.

Due to delays in realization of receivables, there have been instances of intermittent irregularities due to of devolvement of Letter of Credit (LC) in the recent past.

Acuite believes, timely realization of the debtors in order to improve its working capital operations and the liquidity position will be a key rating sensitivity.

- **Moderate financial risk profile**

SBIPPL has moderate financial risk profile marked by healthy net worth albeit moderate debt protection metrics. SBIPPL's net worth stood at around Rs.97.47 crore as on March 31, 2018 as against Rs.95.13 crore as on 31 March 2017. The coverage indicators stood low with Interest Coverage Ratio (ICR) stood at 1.11 times in FY2018 as against 1.18 times for FY2017 on account of stable operating profits for past three years coupled with high interest cost pertaining to LC charges. The TOL/TNW ratio stood high at 3.61 times as on 31 March 2018 as against 4.27 times as on 31 March, 2017 majorly on account of high dependence on the working capital facilities.

Acuite believes the company to maintain its financial risk profile near to medium term in absence of major debt funded capex plans.

- **Low profitability margins susceptible to raw material prices**

SBIPPL reported EBITDA margin of 5.18 percent for FY2018 as against 4.39 percent in the previous year. The improvement in the margins is mainly on account of decline in raw material prices. However, the profit after tax (PAT) margin is thin at 0.33 percent for FY2018 as against 0.25 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.

- **Presence in highly competitive and fragmented industry with exposure to inherent cyclicality**

SBIPPL is operating in competitive and fragmented nature of industry. There are several players who are engaged in trading of iron and steel products business in organized and unorganized sector. Further, profit margins and sales of the company remains exposed to inherent cyclicality in the steel industry and global demand supply dynamics.

Outlook: Negative

Acuite believes that the SBIPPL's credit profile will be impacted by stretched receivable position resulting in intermittent delays in servicing of debt obligations over the near to medium term. The rating may be downgraded in case of further elongation in the working capital cycle further impairing its ability to meet its debt obligations in timely manner. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in working capital cycle thereby translating into significant improvement in its liquidity profile and Debt protection indicators.

Liquidity Position

SBIPPL has stretched liquidity resulting in intermittent irregularities in servicing working capital facilities with the banks. The liquidity pressure is mainly on account of delayed realizations from its clients. The company generated cash accruals in the range of Rs.3.04 crore to Rs.3.36 crore during the last three years through 2017-18. SBIPPL's operations are working capital intensive marked by its gross current assets (GCA) of 198 days in FY2018 against 207 days in FY2017. Due to delays in realization of receivables, there have been instances of intermittent irregularities due to of devolvement of Letter of Credit (LC) in the recent past. Acuite believes, timely realization of the debtors in order to improve its working capital operations and the liquidity position will be a key rating sensitivity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	713.14	775.02	752.49
EBITDA	Rs. Cr.	36.91	33.99	25.65
PAT	Rs. Cr.	2.34	1.98	3.21
EBITDA Margin	(%)	5.18	4.39	3.41
PAT Margin	(%)	0.33	0.25	0.43
ROCE	(%)	31.52	27.80	20.62
Total Debt/Tangible Net Worth	Times	0.33	0.36	0.54
PBDIT/Interest	Times	1.11	1.18	1.19
Total Debt/PBDIT	Times	0.82	0.95	1.80
Gross Current Assets (Days)	Days	198	207	191

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading entities - <http://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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
07-Nov-17	Cash Credit	Long term	16.50	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long term	7.70	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long term	4.50	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long term	4.50	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short term	12.50	ACUITE A3+ (Assigned)
	Letter of Credit	Short term	168.50	ACUITE A3+ (Assigned)
	Bank Guarantee	Short term	3.74	ACUITE A3+ (Assigned)
	Letter of Credit	Short term	82.26	ACUITE A3+ (Assigned)
	Bank Guarantee	Short term	3.25	ACUITE A3+ (Assigned)
	Letter of Credit	Short term	43.75	ACUITE A3+ (Assigned)
	Bank Guarantee	Short term	3.25	ACUITE A3+ (Assigned)
	Letter of Credit	Short term	43.75	ACUITE A3+ (Assigned)
	Proposed Letter of Credit	Short Term	0.80	ACUITE A3+ (Assigned)

***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	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE BB+/Negative (Downgraded from ACUITE BBB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.70	ACUITE BB+/Negative (Downgraded from ACUITE BBB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+/Negative (Downgraded from ACUITE BBB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+/Negative (Downgraded from ACUITE BBB/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A4+ (Downgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	168.50	ACUITE A4+ (Downgraded from ACUITE A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.74	ACUITE A4+ (Downgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	82.26	ACUITE A4+ (Downgraded from ACUITE A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A4+ (Downgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	43.75	ACUITE A4+ (Downgraded from ACUITE A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A4+ (Downgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	43.75	ACUITE A4+ (Downgraded from ACUITE A3+)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A4+ (Downgraded from ACUITE A3+)

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About Acuité Ratings & Research:

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