

Press Release

SUPTHA MAHALAKSHMI STEELS REROLLING MILLS

November 30, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.30 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 18.30 crore bank facilities of SUPTHA MAHALAKSHMI STEELS REROLLING MILLS. The outlook is '**Stable**'.

Established in 2015, Suptha Mahalakshmi Steels & Rerolling Mills (SMSRM) is an Andhra Pradesh-based firm set up by Mr. Jagannadham who has over a decade of experience in the iron and steel industry. The firm is part of the Suptha Mahalakshmi Group that consists of Suptha Mahalakshmi Steels (incorporated in 2003) and Ayyappa Steels (incorporated in 2008) apart from SMSRM. The firm is engaged in the manufacture of structural steel and trading of steel rods, angles and channels. The installed capacity stands at 130 tons per day.

Key Rating Drivers

Strengths

- **Experienced management**

The Proprietor, Mr. Jagannadham has over a decade of experience in the iron and steel industry. Since 2015, Mr. Jagannadham is engaged in the manufacturing of structural steel through SMSRM.

- **Steady revenue growth**

The group has registered steady growth in revenue at a CAGR of 49.85 per cent during the last two years, FY2015-17 complimented by a comfortable top line of Rs.113.89 crore as on FY2017 (Provisional) as against Rs 52.14 crore in the previous year. This growth can be mainly attributed to the commencement of operations of Suptha Mahalakshmi Steels And Rerolling Mills from December 2015 which contributed Rs.65.91 crore in FY2017 (Provisional) (58 per cent of the revenue of the group).

Weaknesses

- **Moderate working capital management**

The group's working capital management has been moderate marked by Gross Current Asset Days (GCA) of 127 in FY2017 (Provisional) and 234 days in FY2016. The fall in GCA days is primarily due to reduction in debtor days in FY2017 as compared to FY2016. The debtor days decreased to 72 days in FY2017 (Provisional) and 179 days in FY2016. The inventory levels have mostly remained the same and stood at 53 days in FY2017 (Provisional) and 45 days in FY2016. On an average, the firm utilises full working capital limits of Rs 14.80 crore.

- **Weak financial risk profile**

The financial risk profile is weak marked by high gearing, moderate debt protection metrics and low net worth. The gearing increased to a high of 4.35 times in FY2017 (Provisional) compared to 3.83 times in FY2016. The interest coverage ratio increased to a moderate 1.53 times in FY2017 (Provisional) compared to 1.24 times in FY2016. The DSCR stood at 1.26 times in FY2017 (Provisional) as against 1.24 times in FY2016. The net worth stood at a low of Rs.4.29 crore in FY2017 (Provisional) and Rs.4.00 crore in FY2016. The NCA/TD increased but stood low at 0.06 times in FY2017 and 0.02 times in FY2016.

• Thin margins

The ratings are also constrained by the thin EBITDA and net profit margins mainly due to the trading nature of business of Suptha Mahalakshmi Steels and Ayyappa Steels which constituted around 40 per cent of the group's total revenue. The group's EBITDA margins stood at 2.78 percent in FY2017 compared to 2.32 per cent in FY2016. The PAT margin decreased to 0.25 per cent in FY2017 (Provisional) compared to 0.44 percent in FY2016.

Analytical Approach

For arriving at the rating, SMERA has considered the consolidated business and financial risk profiles of Suptha Mahalakshmi Steels Rerolling Mills, Suptha Mahalakshmi Steels and Ayyappa Steels (jointly referred to as the Suptha Mahalakshmi Group). The consolidation is on account of the three entities being in the same line of business and having a common management.

Outlook: Stable

SMERA believes that the group will maintain a stable outlook over the medium term owing to its proprietor's extensive industry experience. The outlook may be revised to 'Positive' in case of more than projected growth in operating margins, efficient management of working capital requirements and improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the working capital cycle further deteriorates due to stretch in payment realisation from customers or deterioration in the financial risk profile especially liquidity.

About the Rated Entity - Key Financials

For FY2016-17, the group reported Profit after Tax (PAT) of Rs 0.29 crore on operating income of Rs 113.89 crore as against Profit after Tax (PAT) of Rs 0.23 crore on operating income of Rs 52.14 crore in FY2015-16.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto 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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	13-Jun-2022	3.50	SMERA B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+ / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	9.80	SMERA B+ / Stable

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ABOUT SMERA

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