

Press Release

SOHANLAL SONS

December 13, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) on the Rs. 8.00 crore bank facilities of SOHANLAL SONS. The outlook is '**Stable**'.

Sohanlal Sons (SS), established in 1978 by Mr. Gopallal Agrawal is engaged in the trading of steel and steel products i.e. TMT Bars. The firm procures TMT bars from re-rolling mills and supplies to wholesale traders located in and around Vidarbha, Madhya Pradesh and Nagpur. The day-to-day operations are led by his son, Mr. Kapil Gopallal Agrawal, Proprietor.

Key Rating Drivers

Strengths

- **Established operational track record, experienced management**

SS is engaged in the trading of steel and steel products i.e. TMT Bars since 1978. Mr. Kapil Gopallal Agrawal, the Proprietor has experience of around two decades in the trading business. SMERA believes that SS will continue to benefit from its established position in the market and experienced management.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by networth of Rs.13.85 crore as on 31 March, 2017 as against Rs.14.31 crore in the previous year. The networth includes interest bearing loan to the tune of Rs.9.83 crore (Rs. 11.75 crore in FY2016). The gearing remains comfortable at 0.57 times in FY2017 and FY2016. The total debt of Rs.7.92 crore mainly consists of working capital limit of Rs.5.27 core and housing loan of Rs. 2.65 crore. However, the firm repaid the long term loan in September 2017. The ICR is modest at 1.73 times for FY2017 as against 1.44 times in the previous year. The TOL/TNW stood at 0.69 times as on 31 March, 2017 compared to 1.34 times in the previous year. Going forward, the gearing is expected to remain comfortable in the medium term in the absence of external borrowings.

- **Comfortable working capital cycle**

The working capital cycle is comfortable at 33 days in FY2016-17 as against 27 days in FY2015-16. The GCA days stood at 35 days in FY2016-17 from 44 days in FY2015-16. Further, as informed by the banker, the utilisation of working capital limit has been around 60 per cent in the last six months.

Weaknesses

- **Uneven revenue trend**

SS reported decline in revenue of around 16.73 percent in FY2017 over FY2016. The firm reported operating income of Rs.201.37 crore for FY2017 as against Rs. 241.82 crore for FY2016. The decline in revenue is mainly on account of sluggish demand in the market. However, the firm reported operating income of Rs. 150.00 crore for the period April, 2017 to October, 2017. Going forward, the firm expects Rs.230 crore for FY2018.

- **Low profitability, susceptibility to volatility in raw material prices**

SS reported operating margin of 0.68 percent for FY2017 as against 0.58 percent in FY2016. The firm

registered Profit after tax (PAT) margin of 0.24 percent for FY2017 as against 0.18 percent in the previous year. The firm purchases TMT bars, the prices of which are highly volatile. Hence, the margins are susceptible to volatility in raw material prices. However, the risk is mitigated to an extent as procurement is done only once the orders are received. Moreover, the low profit margins are primarily due to the trading nature of operations.

• Highly competitive and fragmented industry

SS operates in a highly competitive steel industry with pressure on capacity utilisation and pricing power. The steel industry is cyclical in nature and so are end user industries such as real estate and construction. Besides, SS faces competition from other reputed brands in the industry.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of SS.

Outlook: Stable

SMERA believes that SS will maintain a stable outlook in the medium term backed by its promoters' extensive experience. The outlook may be revised to 'Positive' if the firm registers significant growth in revenue while improving profitability and net cash accruals. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve the expected revenue or profitability leading to deterioration in the debt protection metrics.

About the Rated Entity - Key Financials

For FY2016-17, SS reported profit after tax (PAT) of Rs. 0.49 crore on operating income of Rs. 201.37 crore compared with PAT of Rs. 0.44 crore on operating income of Rs. 241.82 crore for FY2015-16. The net worth stood at Rs. 13.85 crore as on 31 March, 2017 as against Rs. 14.31 crore as on 31 March, 2016.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smera.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BB / Stable

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Analytical

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ABOUT SMERA

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