

Press Release

Sohanlal Sons

February 18, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.8.00 crore bank facilities of Sohanlal Sons (SS). The outlook is '**Stable**'.

The Nagpur-based, SS was established in 1978 by Mr. Gopallal Agrawal. Currently, Mr. Kapil Gopallal Agrawal handles the firm as a proprietor since 2012. SS is engaged in trading of steel products viz. TMT Bars and ferrous rods. The firm procures the TMT bars from rolling mills of Raipur and Nagpur and sells them to wholesale dealers located in Vidarbha, Madhya Pradesh and Nagpur.

Analytical Approach

Acuité has taken a standalone view of the financial and business risk profile of SS to arrive at the rating.

During the last rating exercise, the unsecured loan of Rs.9.83 crore is considered as quasi equity based on the undertaking by the promoters that they would be subordinated to bank facilities. However, Acuité has observed certain repayments of these loans in FY2018 and hence, the balance has been treated as debt.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

SS has track record of four decades of operations in the steel trading business. The company was established by Mr. Gopallal Agrawal in 1978. It is currently managed by Mr. Kapil Gopallal Agrawal, who possesses almost three decades of experience in the steel trading segment. The established presence in the market has helped the firm to develop and maintain long standing relations with reputed suppliers and customers.

- **Efficient working capital cycle**

SS's working capital cycle is being managed efficiently marked by Gross Current Assets (GCA) of 20 days in FY2018 as against 35 days in FY2017. The firm does not maintain inventory as it supplies the material directly from its supplier to customer and offers credit period of 18 days in FY2018.

Weaknesses

- **Low profitability margins**

The EBITDA margins of SS stood at 0.63 percent in FY2018 as compared to 0.68 percent in FY2017. Further, PAT margins stood at 0.26 percent in FY2018 as against 0.24 percent in FY2017. The low margins are usually on account of trading nature of business.

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

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

- **Risk of capital withdrawal**

SS is exposed to risk of capital withdrawal considering its partnership constitution. Moreover, there was significant withdrawals observed of Rs.9.83 crore during the period under study.

Liquidity Position:

SS has adequate liquidity marked by net cash accruals of Rs.45.00 to Rs.82.00 crore generated during the last three years through 2017-18 against no long term debt obligations. The cash accruals of the firm is estimated to remain around Rs.1.41-1.94 crore during 2019-21. The working capital cycle of firm is managed efficiently as marked by gross current asset (GCA) days of 20 in FY2018. This has led to lower reliance on working capital borrowings. The current ratio of SS stands healthy at 1.10 times as on March 31, 2018. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual and no repayments over the medium term.

Outlook: Stable

Acuité believes that SS will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case SS registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	269.95	201.37	241.82
EBITDA	Rs. Cr.	1.70	1.37	1.41
PAT	Rs. Cr.	0.70	0.49	0.44
EBITDA Margin	(%)	0.63	0.68	0.58
PAT Margin	(%)	0.26	0.24	0.18
ROCE	(%)	10.48	6.01	6.90
Total Debt/Tangible Net Worth	Times	0.86	4.42	7.77
PBDIT/Interest	Times	1.93	1.73	1.44
Total Debt/PBDIT	Times	2.29	12.18	13.52
Gross Current Assets (Days)	Days	20	35	44

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
13-Dec-2017	Cash Credit	Long Term	8.00	ACUITE BB / Stable (Assigned)

***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	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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