Press Release

Stainox Alloys Private Limited (SAPL)

28 December, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BB/Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BB' (read as SMERA double B)** on the Rs. 15.00 crore bank facilities of Stainox Alloys Private Limited (SAPL). The outlook is **'Stable'**.

Stainox Alloys Private Limited (SAPL), a Mumbai-based company was incorporated in 2012 by Directors, Mr. Prakash Jain, Mr. Ketan Jain and Mr. Vinay Jain. The company is mainly engaged in the trading of stainless steel products such as SS coils, SS sheets, SS pipes as also nickel, copper and manganese ore. The major revenue contributor is stainless steel products (~90 per cent). The company is also an authorised Star distributor of Jindal Stainless Limited and Jindal Stainless (Hisar) Limited which contributes around ~50 per cent of revenue.

The company has its administrative office in Mumbai, Maharashtra and branch office in Ahmedabad, Gujarat.

Key rating drivers

Strengths

Experienced management: Mr. Ketan Jain has experience of around a decade in the steel industry. Prior to SAPL, he was engaged in the trading of steel and manufacturing of utensils for his family business - Goa Metals. Extensive experience has helped the company attain Star distributorship of Jindal Stainless Limited and Jindal Stainless (Hisar) Limited.

Moderate capital structure: The company has a networth of Rs.33.39 crore as on 31 March, 2017 as against Rs.32.66 crore as on 31 March, 2016. The networth includes quasi equity of Rs.30.00 crore as on 31 March, 2017. The gearing stood low at 0.95 times as on 31 March, 2017. The total debt of Rs.31.73 crore mainly includes unsecured loans of Rs.5.78 crore and short term borrowings of Rs.25.95 crore. The TOL to TNW ratio also stood comfortable at 1.36 times as on 31 March, 2017 as against 1.78 times in the previous year.

Weaknesses

Low profitability and coverage indicators: The company has low profitability inherent in the trading nature of business. The operating margins stood low at 3.22 per cent in FY2017 which increased from 2.83 per cent in FY2016. Further, the margins are also susceptible to raw material and forex rate fluctuation risk (imports ~20 per cent from Korea, Japan and China among others). The net margins stood low at 0.36 per cent in FY2017 as against 0.34 per cent in FY2016.

The interest coverage ratio also stood low at 1.10 times in FY2017 due to high interest burden.

Working capital intensive operations: The GCA stood moderately high at ~129 days in FY2017 compared to ~160 days in FY2016. It improved in FY2017 mainly on account of stringent credit policy for collections adopted by the management wherein the credit period was reduced from 90-120 days to 30-60 days credit.

SMERA believes that efficient working capital management will be crucial to the company in maintaining a stable credit profile.

Exposure to cyclicality in the steel industry and intense market competition: The company is exposed to inherent cyclicality in the steel industry due to dependence on construction, automobile, consumer durables industries which are correlated to economic cycles. Further, the company is exposed to a highly fragmented and competitive steel trading industry due to lack of entry barriers which also limits pricing flexibility.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	200.82	201.79	171.46
EBITDA	Rs. Cr.	6.47	5.71	4.80
PAT	Rs. Cr.	0.73	0.68	0.81
EBITDA Margin	(%)	3.22	2.83	2.80
PAT Margin	(%)	0.36	0.34	0.48
ROCE	(%)	10.81	9.88	18.30
Total Debt/Tangible Net Worth	Times	0.95	0.96	1.12
PBDIT/Interest	Times	1.19	1.18	1.26
Total Debt/PBDIT	Times	4.54	4.82	5.75
Gross Current Assets (Days)	Days	129	158	132

Any other information: Not Applicable

Outlook – Stable

SMERA believes that the outlook of SAPL will remain stable owing to the extensive experience of the promoters. The outlook may be revised to 'Positive' if the company is able to scale up operations with improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or further weakening of profitability margins.

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

Status of non-cooperation with previous CRA (if applicable): None

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. Crore)	Ratings/Outlook
Cash Credit under e-DFS	NA	NA	NA	15.00	SMERA BB/Stable

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ABOUT SMERA

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