

Press Release

Hindupur Steels & Alloys Private Limited

29 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.21.02 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) on the Rs. 21.02 crore bank facilities of Hindupur Steels & Alloys Private Limited (HSAPL). The outlook is '**Stable**'.

Hindupur Steels & Alloys Private Limited (HSAPL), incorporated in 2009, is an Andhra Pradesh-based company led by Mr. Ganesh Kumar Agrawal and Mr. Nitin Agrawal. The company is engaged in the manufacturing of mild steel ingots and TMT bars. The installed capacity stands at 30,000 metric tonnes per annum and 100,000 metric tonnes per annum respectively. The company is part of the Lingraj Group, promoted by Mr Agrawal, Mr Goyal and their respective families. Apart from HSAPL, the group constitutes two other companies viz. Niros Ispat Private Limited (NIPL) and Lingraj Steel & Power Private Limited (LSPPL). NIPL manufactures sponge iron and MS ingots from 2001 and LSPPL is engaged in the manufacturing of TMT bars from 2004. The group sells its products under the 'Kamdhenu' brand name.

Key rating drivers

Strengths

Established track of operations and experienced management: The company is headed by Mr. Ganesh Kumar Agrawal and Mr. Nitin Agrawal who possess around two decades of experience in the aforementioned line of business. The extensive experience has enabled the company forge healthy relationships with customers and suppliers.

SMERA believes that the company will continue to benefit from its experienced management and established relationship with its customers.

Stable business risk profile, margins expected to improve: HSAPL has an integrated facility for manufacturing MS Ingots and TMT bars. The company registered stable revenue growth of around 15 per cent over the past two years on an average despite fluctuations in steel prices and slowdown in demand. The operating revenues for FY2016-17 stood at Rs.262.44 crore as against Rs.196.57 crore in FY2015-16. The company caters to construction companies through its network of 40 dealers spread across Karnataka, Madhya Pradesh, Chhattisgarh and Andhra Pradesh. The company has been able to maintain a healthy debtor profile as well with only 16

per cent due for more than six months as on 31 March 2017 and average receivable cycle of 35-40 days. The margins have been uneven during the period under study on account of fluctuations in raw material prices. In FY2016-17, the margins declined to 2.40 per cent from 3.14 per cent in FY2015-16.

SMERA believes that the company will be able to maintain stable margins on account of additional benefit such as higher output of TMT Bars due to increase in production capacity.

Comfortable financial risk profile: The financial risk profile of the company is marked by healthy networth, comfortable gearing and modest debt protection measures. The net worth levels stood at Rs.21.95 crore as on 31 March, 2017 as against Rs. 18.90 crore as on 31 March, 2016. The networth includes unsecured loans from promoters to the tune of Rs. 4.00 crore as the same is subordinated to bank debt. The gearing stood at 1.03 times as on 31 March, 2017 as against 1.29 times as on 31 March, 2015. The total debt of Rs.21.79 crore consists of term loans of Rs.6.67 crore, unsecured loans from relatives of Rs.0.76 crore and the balance constituting working capital funding as on 31 March, 2017. The company has a repayment obligation of Rs.1.74 crore against expected net cash accruals of Rs.2.61 crore. The Interest Coverage Ratio (ICR) stood at 2.08 times and Debt Service Coverage Ratio (DSCR) at 1.18 times for FY2017. The net cash accruals to total debt stood at 0.12 times for FY2017.

SMERA expects the company to maintain its financial risk profile and improve its networth in the absence of major debt funded capex plan.

Weaknesses

Competitive industry and slowdown in demand: The company operates in a highly competitive steel products industry thereby putting pressure on capacity utilisation and pricing power. In addition, the industry has been reeling under the pressure of cheaper imports. Slowdown in demand and threat of cheaper imports has resulted in piling up of inventory or operating at low margins. The performance of the company is linked to the steel industry which is cyclical in nature as well as end user industries like real estate and construction.

Volatility in raw material prices: The margins of the company are susceptible to volatility in raw material prices which have been uneven during the period under study. Significant changes in raw material prices due to import pressure and over supply would have an impact on the margins of the company.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Hindupur Steels & Alloys Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that the company will maintain a 'Stable' profile over the medium term owing to its experienced management and established presence in the market. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving improvement in profitability. Conversely the outlook may be revised to 'Negative' in case of steep decline in profitability, or deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	262.44	196.57	173.94
EBITDA	Rs. Cr.	6.31	6.18	7.05
PAT	Rs. Cr.	0.55	0.13	1.76
EBITDA Margin	(%)	2.40	3.14	4.05
PAT Margin	(%)	0.21	0.07	1.01
ROCE	(%)	10.33	8.24	17.13
Total Debt/Tangible Net Worth	Times	1.03	1.29	1.57
PBDIT/Interest	Times	2.08	1.90	1.80
Total Debt/PBDIT	Times	3.57	3.89	4.12
Gross Current Assets (Days)	Days	65	60	88

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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	Not Applicable	Not Applicable	Not Applicable	12.50	SMERA BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BBB-/ Stable (Assigned)
Term loan I	Not Applicable	Not Applicable	Not Applicable	2.10	SMERA BBB-/ Stable (Assigned)
Term loan I	Not Applicable	Not Applicable	Not Applicable	2.48	SMERA BBB-/ Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.44	SMERA BBB-/ Stable (Assigned)

SMERA Ratings Limited

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