

Press Release**HIRA STEELS LIMITED**

March 07, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 23.84 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable
Short Term Rating	SMERA A3+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (read as **SMERA BBB**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs. 23.84 crore bank facilities of HIRA STEELS LIMITED. The outlook is '**Stable**'.

Incorporated in 1994, Hira Steels Limited (HSL) is owned and managed by the Raipur-based Hira group. The flagship company of the group - Godawari Power and Ispat Ltd (GPIL) has a significant presence across the steel value chain with manufacturing facilities for sponge iron, Mild Steel (MS) billets, ferro-alloys and MS wire. HSL is mainly engaged in manufacturing of MS Bars (Round) in coil (70,000 mtpa), Hard Black (HB) wires (50,000 mtpa), TMT rebars (50,000 mtpa), which find application in construction, and infrastructure.

Key Rating Drivers**Strengths**

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

Incorporated in 1994, HSL is promoted by the Hira group, which has more than two decades of experience in the Steel & Ferro alloys industry. Company was promoted by Mr. J.P.Agrawal and Mr. B.L.Agrawal and is currently managed by the second generation. The extensive industry experience of the group has enabled the company forge healthy relationships with its customers and suppliers.

- **Comfortable financial risk profile and liquidity profile**

HSL has a comfortable financial risk profile marked by net worth of Rs.43.01 crore as on 31 March, 2017 as against Rs.46.96 crore as on 31 March, 2016. The gearing stood 1.48 times as on 31 March, 2017, an improvement from 2.07 times as on 31 March, 2016. The total debt of Rs.63.80 crore consists of long term debt of Rs.5.02 crore, interest free unsecured loans from relatives/ directors of Rs.46.62 crore (which have been converted into preference share capital during the current year FY2018) and working capital funds of Rs.12.15 crore as on 31 March, 2017. The Interest Coverage ratio stood at 0.52 times in FY2017 as against 2.02 times in FY2016. This is mainly due to PAT loss of Rs.3.95 crore in FY2017 on account of write off of advances given to suppliers Rs.10.11 crore appearing as an exceptional item in the financials.

- **Improvement in revenue**

The company has registered revenue of ~Rs.265 crore in the current year from April to January 2018 as compared to Rs.218.07 crore in FY2017 and Rs.157.17 core in FY2016 on account of resumption of regular supplies of raw materials from GPIL and functioning on full capacity.

- **Proximity to raw material suppliers which minimises logistics cost and streamlines timely availability**

The basic raw material for HSL is steel billets which is available in abundance in and around Raipur. The company purchases bulk of its required raw material at market linked rates from GPIL leading to lower logistics cost as well as smoother flow of operations.

Weaknesses

• Moderate Working capital Management

The working capital management is marked by gross current asset (GCA) days of 162 in FY2017 as against 289 in FY2016 this is largely on account of advances to raw material suppliers amounting to Rs. 58 crore as on 31 March, 2017. The debtors stood at 29 days in FY2017 compared to 48 days in FY2016. The inventory days stood at 28 in FY2017 as against 41 in FY2016.

• Vulnerability of margins to fluctuation in steel prices

The EBITDA margins stood at 3.72 per cent in FY2017 as against 4.24 per cent in FY2016 which is mainly on account of fluctuation in raw material prices. HSL's profitability is susceptible to volatility in raw material prices of mainly metal and steel products. The company also operates in a highly fragmented and competitive industry which consists of a large number of organised and unorganised players. HSL sources bulk of its raw materials (i.e. steel billets) from group company Godawari Power Power & Ispat Limited at market linked rates and manufactures long steel products at its rolling mill. With no integration of operations in this entity, profitability of the company is considerably low.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of HSL to arrive at the rating

Outlook: Stable

SMERA believes that HSL will maintain a stable outlook and continue to benefit from the group's significant presence in the steel value chain and a comfortable financial profile. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues while achieving sustained improvement in profitability. The outlook may be revised to 'Negative' in case of lower than expected revenue and profit margins or deterioration in the financial risk profile owing to higher than envisaged debt funded capex or working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	218.07	157.17	159.38
EBITDA	Rs. Cr.	8.12	6.66	0.26
PAT	Rs. Cr.	-3.95	0.01	-3.93
EBITDA Margin	(%)	3.72	4.24	0.16
PAT Margin	(%)	-1.81	0.01	-2.47
ROCE	(%)	6.63	2.42	0.00
Total Debt/Tangible Net Worth	Times	1.48	2.07	2.26
PBDIT/Interest	Times	0.52	2.02	1.01
Total Debt/PBDIT	Times	51.66	14.17	26.06
Gross Current Assets (Days)	Days	162	289	308

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>
- 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>

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	10.00	SMERA BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.19	SMERA BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A3+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.15	SMERA BBB / Stable

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