

## Press Release

Hira Steels Limited

May 17, 2019

Rating Upgraded



<b>Total Bank Facilities Rated*</b>	Rs. 23.84 Cr.
<b>Long Term Rating</b>	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/ Stable)
<b>Short Term Rating</b>	ACUITE A2 (Upgraded from ACUITE A3+)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three**) to the Rs. 23.84 crore bank facilities of Hira Steels Limited (HSL). The outlook is 'Stable'.

The rating upgrade reflects improvement in company's business and financial risk profile. The operating income increased to Rs. 331.85 crore in FY2018 against Rs 218.07 crore in FY2017 and Rs. 157.17 crore in FY2016 which is marked by an increase in capacity utilization and better realizations on account of up-trend in the steel industry cycle. The operating profitability (EBITDA) margins improved to 4.28 per cent during FY2018 against 3.72 per cent. The upgrade also reflects group's comfortable financial risk profile marked by healthy networth, comfortable gearing and healthy debt protection metrics.

Incorporated in 1994, Hira Steels Limited (HSL) is owned and managed by the Raipur-based Hira group. 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.

The flagship company of the group - Godawari Power and Ispat Limited (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.

### Analytical Approach

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

### 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. The company has been promoted by Mr. J.P.Agrawal and Mr. B.L.Agrawal and is currently managed by the second generation of the Agarwal family. The extensive industry experience of the group has enabled the company forge healthy relationships with its customers and suppliers.

##### • Healthy financial risk profile

The financial risk profile of HSL is marked by healthy net worth of Rs.93.32 crore as on 31 March, 2018 as against Rs.43.01 crore as on 31 March, 2017, the increase is on account of issue of Non-cumulative redeemable preference shares of Rs. 12 crore with share warrants of Rs.38.40 crore. The gearing improved to 0.16 times as on 31 March, 2017 from 1.48 times as on 31 March, 2017 mainly on account of replacement of unsecured loans from promoters and relatives with Non-cumulative redeemable preference shares. The total debt of Rs.15.12 crore consists of long term debt of Rs.3.13 crore, interest free unsecured loans from relatives/ directors of Rs.0.98 crore (against Rs. 46.62 crore in previous year) and working capital borrowings of Rs.11.01 crore as on 31 March, 2018. The Interest Coverage ratio stood at 3.55 times in FY2018 against 0.52 times in FY2017. TOL/ TNW stood at 0.19 times as on March 31, 2018. Acuité believes company will continue to maintain healthy financial risk profile on the back

of healthy accruals and absence of any major debt funded capex in the near term.

- **Proximity to raw material suppliers which minimizes 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 its group companies majorly Godawari Power and Ispat Limited leading to lower logistics cost as well as smoother flow of operations.

- **Improvement in working capital cycle**

The working capital management is marked by gross current asset (GCA) days of 105 in FY2018 as against 162 in FY2017 and 289 in FY2016. GCA days are mainly dominated by advances to raw material suppliers amounting to Rs. 49.66 crore in FY2018 against Rs. 58.75 crore in the previous year. The inventory holding period and receivable collection period stood at 27 days and 22 days respectively in FY2018 against 28 days and 29 days respectively in FY2017. Further, average utilization of working capital limits remained low and stood in the range of 40-50 per cent for the year. Acuite expects the company will continue to maintain efficient working capital management in the near to medium term.

## Weaknesses

- **Vulnerability of margins to fluctuation in steel prices**

The operating margins stood at 4.28 per cent in FY2017 as against 3.72 per cent in FY2017 and 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 & 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.

## Liquidity Position:

Liquidity profile is adequate marked by healthy cash accruals of Rs.14.37 crore during FY18 against its repayment obligations of Rs. 2.73 crore. The working capital cycle of the company is effectively managed as marked by gross current asset (GCA) days of 105 in FY 2018, also the working capital utilisation of the company remained low. The current ratio stood at 5.74 times as on March 31, 2018. Acuite believes that HSL will continue to benefit over the medium term on account of its established position.

## Outlook: Stable

ACUTE believes that the outlook for HSL will remain 'Stable' over the medium term on account of its promoter's extensive industry experience, healthy financial risk profile and comfortable working capital cycle. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially, while also improving or maintaining its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability amidst intense competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capex or the company is unable to maintain its profitability.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	331.85	218.07	157.17
EBITDA	Rs. Cr.	14.20	8.12	6.66
PAT	Rs. Cr.	(0.09)	(3.95)	0.01
EBITDA Margin	(%)	4.28	3.72	4.24
PAT Margin	(%)	(0.03)	(1.81)	0.01
ROCE	(%)	0.73	(1.50)	2.42
Total Debt/Tangible Net Worth	Times	0.16	1.48	2.07
PBDIT/Interest	Times	3.55	0.52	2.02
Total Debt/PBDIT	Times	5.46	51.66	14.17
Gross Current Assets (Days)	Days	105	162	289

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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
09-Mar-2018	Cash Credit	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Term Loans	Long Term	3.19	ACUITE BBB / Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3+ (Assigned)
	Proposed bank facility	Long Term	0.15	ACUITE BBB / 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	10.00	ACUITE BBB+ / Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ / Stable (Upgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.19	ACUITE BBB+ / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2 (Upgraded)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BBB+ / Stable (Upgraded)

## Contacts

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### About Acuité Ratings & Research:

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