

Press Release

Hira Steels Limited

October 07, 2020

Rating Reaffirmed, Assigned & Withdrawn



Total Bank Facilities Rated*	Rs. 33.50 Cr. (Enhanced from Rs.23.84 Cr.)
Long Term Rating	ACUITE BBB+/Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of **ACUITE BBB+ (read as ACUITE triple B plus)** and the short-term rating of **ACUITE A2 (read as ACUITE A two)** on the Rs. 33.50 crore bank facilities of Hira Steels Limited (HIL). The outlook is 'Stable'.

Hira Steels Limited was incorporated in 1994 and is engaged in manufacturing of MS Bar, Hard Black Wire and TMT bars. The manufacturing unit is located in Raipur (Chhattisgarh) with an installed capacity of 60,000 MTPA for Hard Black Wire and 120,000 MTPA for rerolled products. Presently the company is managed by Mr. Amit Kumar Agarwal.

Analytical Approach:

Acuité has taken the standalone view of the business and financial risk profile of HSL.

Key Rating Drivers:

Strengths

Long operational track record and experienced management

The company has more than two decades of operational track record as it commenced operations since 1994. The company is managed by Amit kumar Agarwal, who has two decades of experience in the iron & steel business. HSL is part of Hira group. The Hira group has diversified interests in various sectors such as steel, ferroalloys, energy, mining and cement, among others. The flagship company of the group is Godawari Power and Ispat Limited (GPIL) which has a significant presence across the steel value chain with manufacturing facilities for sponge iron, mild steel (MS) billets, ferroalloys and MS wire.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at around Rs.94.84 crore in FY2020 (Provisional) as compared to Rs.93.69 crore in FY2019. This improvement in Net worth is mainly due to the retention of current year profit. The gearing of the company stood at 0.36 times in FY20 (Provisional) as compared to 0.30 times as on March 31, 2019. The company has low reliance on external debt which is reflected from short term borrowing of around Rs 24.89 crores as against total debt balance of about Rs 34.06 crore as on 31 March 2020. The remaining portion of debt includes around Rs 9.01 crore of unsecured loans. Interest coverage ratio (ICR) stood at 3.93 times in FY2020 (Provisional) as against 4.51 times in FY 2019 due to the rise in financial cost because of enhancement in working capital limits. The net cash accruals against total debt (NCA/TD) stood at 0.44 times in FY2020 (Provisional) as compared to 0.13 times in the previous year. Acuité believes the financial risk profile of the company will remain healthy over the medium term backed by the absence of debt-funded capex plan and steady accruals.

Improvement in Profitability

EBITDA margin of the company is likely to improve to 4.00-4.50 percent in FY20 (provisional) as against 3.55 percent in FY19. This improvement was driven by a decline in raw material cost. Acuite believes the profitability

of the company is expected to remain at a modest level in the medium term.

Weaknesses

Industry Risk

The company is exposed to inherent risks of the steel industry, which includes cyclical nature along with a high competitive market due to presence of a large number of players. In addition, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Sustenance of revenue growth while maintaining profitability
- Deterioration in financial risk profile.

Material Covenant

None

Liquidity Position: Adequate

The company has an adequate liquidity profile as average utilization of working capital limits stood at 62 percent during the last 12 months ended August 2020. The net cash accrual stood comfortable at around Rs 4.49 crores during FY20 as against Rs 0.04 crore of current maturity. Moreover, net cash from the operation of the company stood at around Rs 17.39 crore in FY20 as against Rs 14.23 crore. Current ratio stood comfortable at 2.97 times in FY20. The working capital requirement had increased as reflected from its GCA days which stood at 98 days in FY20 as against 80 days in FY19. The company had availed Rs 2.00 crore of additional line of credit under COVID-19 schemes to meet rising working capital requirement. Acuite expects the liquidity position of the company will remain at an adequate level over the medium term backed by steady cash flow.

Outlook: Stable

ACUITE 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' in case of a substantial increase of scale in operation and profitability margin. Conversely, the outlook may be revised to 'Negative' in case of substantial deterioration in financial risk profile or liquidity profile due to debt-led capex plan.

About the Rated Entity -

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	441.14	331.85
PAT	Rs. Cr.	0.51	-0.09
PAT Margin	(%)	0.12	-0.03
Total Debt/Tangible Net Worth	Times	0.30	0.16
PBDIT/Interest	Times	4.51	3.55

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
07 March 2018	Cash Credit	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	3.19	ACUITE BBB / Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3+ (Assigned)
	Proposed Bank Guarantee	Long Term	0.15	ACUITE BBB / Stable (Assigned)
17 May 2019	Cash Credit	Long Term	10.00	ACUITE BBB +/- Stable (Upgraded)
	Cash Credit	Long Term	10.00	ACUITE BBB +/- Stable (Upgraded)
	Term Loan	Long Term	3.19	ACUITE BBB +/- Stable (Upgraded)
	Bank Guarantee	Short Term	0.50	ACUITE A2 (Upgraded)
	Proposed Bank Guarantee	Long Term	0.15	ACUITE BBB +/- Stable (Upgraded)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.15	ACUITE BBB+/Stable (Re-affirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Re-affirmed)
Term Loan	Not Applicable	Not Applicable	Repaid in full	3.19	ACUITE BBB+ (Withdrawal)
Term Loan	April 2020	7.75%	April 2022	2.00	ACUITE BBB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.85	ACUITE BBB+/Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2 (Re-affirmed)

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About Acuité Ratings & Research:

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