

Press Release

Hira Steels Limited

November 12, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 33.50 Cr.
Long Term Rating	ACUITE BBB+/Negative (Reaffirmed and Outlook revised)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite 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 Cr bank facilities of Hira Steels Limited (HSL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in outlook is because of HSL's fluctuating profitability margin and expected deterioration in financial risk profile due to upcoming debt funded capex plan.

The company had registered a strong revenue growth in FY21 backed by rise in both average realization and sale volume of finished goods. The ratings also factor in company's efficient working capital management along with adequate liquidity profile. However these strengths are partly offset by the cyclical nature of steel Industry.

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 at Raipur, Chhattisgarh with an installed capacity of 60,000 MTPA for Hard Black Wire and 120,000 MTPA for rolled products. Presently, the company is managed by Mr. Amit Kumar Agarwal.

Analytical Approach:

Acuite 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 with operations commencing in 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.

Strong revenue growth

The company had registered a strong revenue growth of 51.85 percent in FY21 driven by increase in both sales volume and average realization of finished goods on account of strong demand from end user industries. The company has posted provisional revenues of Rs 341 Cr till September 2021. Acuite believes the scale of operation will continue to improve over medium term backed by rise in capacity utilization and buoyancy in the steel industry.

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.115.33 Cr in FY2021 as compared to Rs.94.34 crore in FY2020. This improvement in net worth is mainly due to infusion of Rs 19.50 Cr of Equity and

Preference share capital. Acuite has treated preference share capital of Rs 1.95 Cr as part of net worth as it may be converted into equity share capital. The gearing of the company stood at 0.25 times in FY21 as compared to 0.36 times as on March 31, 2020. The company has low reliance on external debt which is reflected from short term borrowing of around Rs 21.21Cr as against total debt balance of about Rs 24.89 Cr as on 31 March 2020. The remaining portion of debt includes around Rs 7.11 crore of long term borrowing and Rs 0.90 Cr of unsecured loan. Interest coverage ratio (ICR) stood at 6.54 times in FY2021 as against 3.63 times in FY 2020. DSCR stood at 5.87 times in FY21 as against 3.37 times in FY20. The net cash accruals against total debt (NCA/TD) stood at 0.20 times in FY2021 as compared to 0.12 times in the previous year. Acuite believes the financial risk profile of the company is likely to witness moderation over the medium term because of Rs 52.50 Cr of upcoming capex plan in FY22 which will be mostly funded through external debt.

Efficient working capital management

The company has a low working capital requirement as reflected from its Gross Current Asset (GCA) days of 78 days in FY21 as against 112 days in FY20. Reason for low GCA days is comfortable debtor days of 11 days in FY21. Inventory days stood at 24 days in FY21 as against 41 days in FY20. Acuite believes the working capital intensity will remain at similar levels over the medium term.

Weaknesses

Volatile and low profit margin

The company has witnessed an uneven profit trend as reflected from its EBITDA margin of 2.88 percent in FY21 as against 1.00 percent in FY20 and 3.55 percent in FY19. RoCE of the company continued to remain low during FY21 at 2.35 percent though there has been a marginal improvement from 2.08 percent in FY20. The improvement is on account of capital infusion to the tune of Rs. 19.50 crs. PAT margin also stood low at 0.26 percent in FY21 because of Rs 10.61 Cr of exceptional loss (advance to supplier written off). The company has posted EBITDA margin of 1.8 percent in H1FY22 (Provisional). Acuite believes profitability of the company will improve over medium term backed by installation of 15 MW solar power plant in FY22 for captive consumption which will reduce the power cost.

Rise in debt level

The company will undertake a debt funded capex plan of Rs.52.50 Cr in FY22 to set up a 15 MW of captive solar power plant. The said capex will be funded through a mix of debt and equity in 2:1 ratio. The capex will lead to moderation in gearing and coverage indicators over the medium term. The solar power plant is likely to be operational by Q4FY22. Acuite believes that any unplanned debt funded capex plan over and above this would be a key rating sensitivity factor.

Cyclical nature of the industry

The company's performance remains vulnerable to cyclical nature in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Indian steel sector is highly competitive due to the presence of a large number of players. The operating margin of the company is exposed to fluctuations in the prices of intermediate goods as well as realization from finished goods.

Rating Sensitivity

- Sustenance of revenue growth
- Improvement in profitability margin

Material Covenant

None

Liquidity Position: Adequate

The company has an adequate liquidity profile as reflected from its average utilization of working capital limits stood at 49 percent during the last 12 months ended September 2021. The net cash accrual stood comfortable at Rs 16.57 Cr (adjusted for Rs 10.60 Cr of non cash item) in FY21 as against Rs 1.86 Cr of current maturity. Going forward, the net cash accruals are expected to be in the range of Rs 14-24 Cr as against current maturity of around Rs 7.5 Cr from FY22-FY24. Current ratio stood comfortable at 3.35 times in FY21. The working capital requirement had declined as reflected from its GCA days which stood at 78 days in FY21 as against 112 days in FY20. Acuite expects the liquidity position of the company will remain at an adequate level over the medium term backed by steady cash flow.

Outlook: Negative

The outlook revision to 'Negative' is primarily driven by the fluctuating trend in profit margins and also expected moderation in their financial risk profile arising out of their planned debt funded capex plan. The rating may be downgraded in case of decline in profit margins or significant deterioration in their liquidity profile. Conversely, the outlook may be revised to 'Stable' in case of improvement in the financial risk profile backed by a substantial rise in profit margin.

About the Rated Entity -

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	550.64	362.63
PAT	Rs. Cr.	1.45	0.62
PAT Margin	(%)	0.26	0.17
Total Debt/Tangible Net Worth	Times	0.25	0.36
PBDIT/Interest	Times	6.54	3.63

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>

Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Manufacturing entities - <https://www.acuite.in/view-rating-criteria-59.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 October 2020	Cash Credit	Long Term	10.15	ACUITE BBB+/Stable (Re-affirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Re-affirmed)
	Term Loan	Long Term	3.19	ACUITE BBB+ (Withdrawal)
	Term Loan	Long Term	2.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	9.85	ACUITE BBB+/Stable (Assigned)
	Bill Discounting	Long Term	1.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A2 (Re-affirmed)

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)
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)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.15	ACUITE BBB+/Negative (Re-affirmed)
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Negative (Re-affirmed)
Proposed	Term Loan	Not Available	Not Available	Not Available	1.32	ACUITE BBB+/Negative (Re-affirmed)
State Bank of India	Term Loan	April 2020	7.75%	April 2022	0.68	ACUITE BBB+/Negative (Re-affirmed)
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.85	ACUITE BBB+/Negative (Re-affirmed)
State Bank of India	Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+/Negative (Re-affirmed)
State Bank of India	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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