

Press Release

SKP Steel Industries Private Limited

12 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 39.00 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 triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 39.00 crore bank facilities of SKP Steel Industries Private Limited (SKP). The outlook is '**Stable**'.

Incorporated in 1997- SKP Steel Industries Private Limited (SKP) is a Kolkata based company promoted by Mr. Surendra Kumar Pasari. The company is engaged in the manufacturing of MS pipes, MS Wires and stainless steel pipes under the brand 'Kings'. The company has an installed capacity of 34000 metric tons per annum (MTPA) of MS pipes, 3,000 MTPA of stainless steel (SS) pipes and 1,000 MTPA of MS wires. SKP also trades in TMT bars. Currently the day to day operation of the company is managed by the 2nd generation of Pasari family led by Mr. Anirudh Pasari & Ayush Pasari along with Mr. Surendra Pasari.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Incorporated in 1997, SKP has a track record of over two decades in the iron and steel industry. The company was promoted by Mr. Surendra Kumar Pasari who has diversified business experience of more than four decades in the field of auto dealership, real estate and tea gardens. Currently, the day to day operations are managed by the second generation of Pasari family led by Mr. Anirudh Pasari & Ayush Pasari along with Mr Surendra Pasari.

Healthy growth in revenue and improvement in operating margins

The company has registered healthy growth in topline with revenue of Rs 142.86 crs in FY 17 from Rs 95.29 crs in FY 15, thereby registering a cumulative annual growth rate (CAGR) of 22.44 per cent during the last 2 years. The growth in revenue is on account of rise in capacity utilization for MS Pipe division, improvement in realization and commencement of operation for its new stainless steel pipes division in FY 17. During the current year, the company achieved revenue of Rs 110 crs till December'17 (provisional).

The operating margins of SKP improved to 4.53 per cent in FY 17 from 3.47 per cent in FY 16. The improvement is on account of better realization, commencement of stainless tube division and focus on manufacturing activities thereby improving its top-line and margins.

Moderate financial risk profile

The moderate financial risk profile of the company is marked by its moderate net worth, moderate gearing and debt protection metrics. The net worth of the company stood at Rs 18.43 crore in FY2017 as against Rs 16.39 crs in FY 2016. The net-worth includes Rs. 8.68 crores of unsecured loans from promoters. SMERA has treated the unsecured loans as quasi equity as the amount is subordinated to bank debt and the company has also undertaken to maintain the same in the business over the medium term. The debt equity stands moderate at 1.46 times in 2017 as compare to 1.31 times in FY 2016. The moderate gearing is on the account capex plan undertaken by the company during the last financial year where the company has started its new SS tube plant. Total debt of Rs 26.92 crore in FY 2017 consist of long term loan of Rs 6.88 crore and Rs 20.04 crore of short term working capital facilities. The interest coverage ratio and DSCR stood moderate at 1.70 times and 1.39 times in FY 2017 as compare to 1.44 times and 1.10 times respectively in FY 2016. The NCA /TD stood at 0.09 times in FY 2017 as compare to 0.04 times in FY 2016.

Weaknesses

Working capital intensive operations

The operations are working capital intensive in nature marked by gross current asset (GCA) days of 133 in FY 2017 as against 147 days in FY 2016. The moderate GCA days are on account of debtor days of 115-125 during the period under review (FY 15-17). SKP extend 90 days credit period to its dealers in view of general practice in the industry, and there are few big customers like M/s. Skipper Limited, Bharat Heavy Electricals Ltd, M/s. Simplex Infrastructures Limited etc to whom the company extend 120 days credit. The company maintain inventory of around 20-25 days so as to mitigate price fluctuation and easy availability of the major raw material in the form of HR coils. SKP receives credit of 45 -60 days from suppliers. On an average the company utilizes 85-90 per cent of its fund based working capital facilities.

Debt funded capex plan

The company is undertaking a capex for setting up of slitting line a direct backward integration of the existing MS pipe unit. In addition to this SKP is putting up a new pipe unit which will help them to increase the size range of their existing products. The capex is likely to incur Rs 18 crores which would be funded through term loan and promoters contribution in the ratio of 55:45. Going forward, maintaining its financial risk profile through the planned capex undertaken would remain a key rating sensitivity.

Exposure to inherent cyclicity in the steel industry

The profit margins and sales of the group remains exposed to inherent cyclicity in the steel industry.

Outlook: Stable

SMERA believes that SKP will continue to benefit over the medium term from the promoters long experience in the steel industry. The outlook may be revised to 'Positive' if SKP achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and financial risk profile further deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	142.86	104.22	95.29
EBITDA	Rs. Cr.	6.48	3.61	3.72
PAT	Rs. Cr.	0.42	0.35	0.27
EBITDA Margin	(%)	4.53	3.47	3.91
PAT Margin	(%)	0.29	0.34	0.28
ROCE	(%)	11.02	8.86	19.83
Total Debt/Tangible Net Worth	Times	1.46	1.31	1.35
PBDIT/Interest	Times	1.70	1.44	1.38
Total Debt/PBDIT	Times	4.15	5.91	4.71
Gross Current Assets (Days)	Days	133	147	156

Analytical Approach: SMERA has considered the standalone business and financial risk profile of the company.

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	SMERA BBB-/Stable
Term Loans	Not Applicable	Not Applicable	Not Applicable	17.04	SMERA BBB-/Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.21	SMERA BBB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA A3

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