

Press Release

Sesa International Limited (SIL)

June 28, 2019

Rating Downgrade



Total Bank Facilities Rated*	Rs. 137.00 Cr. (Reduced from Rs.157.00 crore)
Long Term Rating	ACUITE BB+/Stable (Downgraded)
Short Term Rating	ACUITE A4+ (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from 'ACUITE BBB-' (read as ACUITE triple B minus) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from 'ACUITE A3' (read as ACUITE A three) to the Rs. 137.00 crore bank facilities of **Sesa International Limited (SIL)**. The outlook is '**Stable**'.

The rating downgrade is mainly driven by the stretch in receivables position of the company which has increased from 130 days in FY'2017 to 184 days in FY'2018. The elongation in their debtors has also led to full utilization in their working capital facilities.

Sesa International Limited was incorporated in 2002 as a Kolkata based company. It is promoted by Mr. Shankar Lal Bagri and Mrs. Uma Bagri of Kolkata and is engaged in trading of steel intermediaries such as rounds, TMT bars, pallets, MS Billets, Angle Channels and flats among others. The company procures its steel intermediaries directly from the dealers of Steel Authority of India Limited. The company also procures from different secondary producers in West Bengal.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SIL to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management

The directors of the company, Mr Shankar Kumar Bagri have more than 15 of experience in the iron & steel industry. The management has been able to establish comfortable relationships with their key suppliers and customers.

Above average financial risk profile

The above average financial risk profile of the company is marked by healthy net worth, moderate gearing and moderate debt protection metrics. The net worth of the company stands healthy at Rs.96.85 crore in FY2018 as compared to Rs.95.05 crore in FY2017. Acuite has considered Rs.24.17 crore of unsecured loan as quasi equity as the same amount is subordinated to bank debt. The gearing of the company has increased and stood moderate at 1.38 times as on March 31, 2018 when compared to 1.10 times as on March 31, 2017. This deterioration in gearing is mainly on account of increase in short term debt due to stretched debtors position. The total debt of Rs.134.10 crore in FY2018 consists of long term debt of Rs.4.39 crore and short term debt of Rs.129.71 crore. Total outside liability against tangible Networth (TOL/TNW) stands moderate at 2.42 times in FY2018 as compared to 1.63 times in previous year. Interest coverage ratio (ICR) is moderate and stands at 1.21 times in FY 2018 as against 1.18 times in FY 2017. The debt service coverage ratio (DSCR) also stands modest at 1.09 times in FY2018 as against of 1.13 times in FY2017.

Weaknesses

Working capital intensive nature of operations

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 249 days in 2017-18, increased from 190 days in 2016-17. These high GCA days emanates from high collection period of 184 days in FY2018 as compared to 130 days in the previous year. The inventory holding period stood comfortable of 4 days in FY2018 as compared to 8 days in FY2017. The operations of the company are expected to remain working capital intensive, as the company is engaged in trading of steel intermediaries in order to meet the requirement of their regular customers.

Presence in highly competitive and fragmented industry

The steel products trading industry is a highly fragmented industry and there is large number of organized and unorganized players which has led to high competition in the industry. The company faces competition from few large players as well as numerous players in the unorganized segment. Also on account of its trading nature of business, the entry barriers are low, leading to stiff competition for the company.

Liquidity Position

The company has moderate liquidity marked by moderate net cash accruals of Rs.2.79 crore as compared to Rs.0.84 crore of long term debt obligations. The nature of operation of the company is working capital intensive reflected by high gross current asset (GCA) days of 249 in FY 2018 as against of 190 days in FY2017. This is mainly on due to elongated debtor days of 184 in FY2018 and 130 days in FY2017. This has led to full utilization on working capital borrowings, the working capital limit in the company remains utilised at 100 percent during the last 6 months period ended May 2019. Acuite believes liquidity is likely to remain moderate due to healthy accruals as against of repayment obligations and no major debt funded capex plan.

Outlook: Stable

Acuite believes the outlook on SIL rated facilities will remain stable over the medium term backed by its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of sustenance of revenue growth while improving its working capital management. The outlook may be revised to 'Negative' in case of further elongation in its working capital cycle or deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	408.61	384.20	290.01
EBITDA	Rs. Cr.	13.74	13.62	9.62
PAT	Rs. Cr.	2.63	2.11	2.04
EBITDA Margin	(%)	3.36	3.54	3.32
PAT Margin	(%)	0.64	0.55	0.70
ROCE	(%)	10.70	10.93	9.52
Total Debt/Tangible Net Worth	Times	1.38	1.10	1.37
PBDIT/Interest	Times	1.21	1.18	1.23
Total Debt/PBDIT	Times	5.79	4.81	6.69
Gross Current Assets (Days)	Days	249	190	218

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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
24-Apr-2018	Cash Credit	Long Term	25.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Packing Credit	Short Term	10.00*	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	35.00**	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	40.00***	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	17.00****	ACUITE A3 (Assigned)

* Interchangeability with CC limit for Rs.8.00 crore.

** One-way interchangeable from LC to CC is permitted to the extent of Rs.35.00 crore

*** One-way interchangeable from LC to CC is permitted to the extent of Rs.25.00 crore

**** Interchangeability with PC limit for Rs.17.00 crore

*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	25.00	ACUITE BB+/Stable (Downgrade)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Stable (Downgrade)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00*	ACUITE A4+ (Downgrade)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	35.00**	ACUITE A4+ (Downgrade)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00***	ACUITE A4+ (Downgrade)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00****	ACUITE A4+ (Downgrade)

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About Acuité Ratings & Research:

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