

Press Release

Shree Harie Steel And Alloys

May 25, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.27 Cr.
Long Term Rating	SMERA BB- / Outlook:Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs.5.27 crore and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.1.00 crore bank facilities of Shree Harie Steel and Alloys (SHSA). The outlook is '**Stable**'.

The Tamil Nadu-based partnership firm, Shree Harie Steels and Alloys (SHSA) was established in 2005. It is engaged in manufacturing of carbon steel, low alloy steel, stainless steel and duplex steel castings. The partners of the firm are Mr. K. Subbain, Mr. R. Sivakumar, Mr. M. Nagarajan and Mr. M. Ranganathan.

Key Rating Drivers

Strengths:

Experienced management and long standing relations with clients

The partners have over three decades of experience in the steel industry. This has resulted in healthy relationships with suppliers and repetitive orders from its customers. Over the years, the firm has developed long standing relationships with its reputed clients including Bharat Heavy Electricals Limited (BHEL), Flowserve Corporation, Karmen International Private Limited, Schwing Stetter (India) Private Limited, Triveni Turbines among others.

Weaknesses:

Small scale of operations and profitability

SHSA has small scale of operations marked by decrease in operating income from Rs.31.70 crore in FY2016 to Rs.23.70 crore in FY2017. The firm has reported revenues of ~Rs.36.00 crore in FY2018. The operating margins improved to 7.00 percent in FY2017 as against 5.32 percent in FY2016. However, PAT margins remained low at 0.38 percent in FY2017 as against 0.59 percent in the previous year.

Moderate financial risk profile

The financial risk profile is marked by networth of Rs.2.96 crore as on 31 March, 2017 as against Rs.2.86 crore in the previous year. The gearing improved to 1.88 times as on 31 March, 2017 as against 2.04 times in the previous year. The total debt of Rs.5.58 crore majorly comprises working capital facility of Rs.5.14 crore and term loan of Rs.0.44 crore. The coverage indicators are healthy with interest coverage ratio of 2.16 times in FY2017 as against 1.93 times in FY2016.

Analytical Approach:

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of SHSA.

Outlook: Stable

SMERA believes that SHSA will maintain a 'Stable' outlook over the medium term on account of its experienced management and established market position. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and accruals along with improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation in the working capital cycle or if the firm registers lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.70	31.70	27.26
EBITDA	Rs. Cr.	1.66	1.69	1.38
PAT	Rs. Cr.	0.09	0.19	0.20
EBITDA Margin	(%)	7.00	5.32	5.07
PAT Margin	(%)	0.38	0.59	0.72
ROCE	(%)	10.96	13.85	21.56
Total Debt/Tangible Net Worth	Times	1.88	2.04	1.98
PBDIT/Interest	Times	2.16	1.93	1.98
Total Debt/PBDIT	Times	3.30	3.39	3.99
Gross Current Assets (Days)	Days	178	140	148

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

Not Applicable

Any other information:

Not Applicable

Applicable Criteria:

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of 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	5.00	SMERA BB-/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.27	SMERA BB-/ Stable
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4

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