

## Press Release

### Sree Krishnarjuna Steel And Pipe Distributors

August 16, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.6.00 Cr.
<b>Long Term Rating</b>	ACUITE B/Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long term rating of '**ACUITE B** (read as **ACUITE single B**) on the Rs. 6.00 crore bank facilities of Sree Krishnarjuna Steel and Pipe Distributors (SKSPD). The outlook is '**Stable**'.

Promoted by Mrs. Kakumanu Kanaka Durga, Sree Krishnarjuna Steel and Pipe Distributors is a proprietrix concern commenced operations in March 1975. The firm has its registered office in Vijayawada, Andhra Pradesh. The firm is an authorised distributor of Tata Steel Ltd (TSL) for Galvanised pipes and MS steel tubes and Jindal Steel since inception.

### Key Rating Drivers

#### Strengths:

- Extensive experience of the proprietrix in the metal trading business**

Ms. Kakumanu Kanaka Durga has more than four decades of experience in the field of steel trading. Day to day operations of the firm is managed by her son Mr. K S Prasad who has more than two decades of experience in the steel trading business.

- Long association with TSL, repeated business and efficient working capital management**

The firm has been dealing with TSL as its distributor of GI pipes & MS steel tubes for more than four decades. Long and healthy association with TSL supported in regular and steady supplies; leading to major revenue driver for the firm. Further, regular off-take by its vintage customers led to healthy growth in revenues over the past four years through FY2018. Its revenues have improved to Rs.30.5 crores in FY2018 (Provisional), (though declined from highs of Rs.39.9 crores in FY2017) from Rs.18.3 crores in FY2015. Acuite believes that the revenue profile is expected to improve backed by moderate demand for the pipes from the end user segment. The firm's operations are efficiently managed with gross current asset (GCA) days of about 100 days historically; comprise of inventory days of about a month and extends credit of about two months. Acuite believes that being trading nature of operations, the working capital operations continues to be efficient at these levels.

#### Weaknesses:

- Modest scale of operations coupled with de-growth in operating income in FY2018**

The firm's revenues are modest in the industry, despite its presence for over four decades; its revenues though improved sharply from Rs.18.3 crores in FY2015 to Rs.30.5 crores in FY2018 (Provisional). However, the firm has witnessed revenue de-growth in FY2018 due to the enduring impact of GST in July 2017, resulting in low sales volume. However, with improving end user demand, the revenues are expected to roll-back and improve to about Rs.40.0 – 50.0 crore over the medium term.

- Below average financial risk profile**

The financial risk profile of the firm is below-average, marked by high gearing (debt-to-equity).

high total outside liabilities to total networth (TOL/TNW) and average debt protection metrics. The total outside liabilities to tangible net worth stood high at 6.22 times as on March 31, 2018(Provisional) as against 9.16 times in FY2017 on account of high creditor funding in the business to meet its working capital requirements. The firm's gearing is high at 3.45 times (Provisional) as of March 31, 2018, though a marginal improvement from 4.08 times in FY2017. Its networth is low at Rs.1.25 crores (Provisional) as of March 31, 2018; low networth and modest profitability of about Rs.0.4 crores historically lead to high utilisation of its bank lines of over 90 per cent for past three months through June 30, 2018. The firm's debt protection metrics are average: Interest Coverage Ratio (ICR) at 1.37 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.05 times as on March 31, 2018 on provisional basis; attributed to low profitability margins in the range of 2.5 – 2.8 per cent historically.

- **Highly fragmented and competitive business**

The firm is in commoditised product with thin profitability margins. Further, its current profitability remains modest, given the low value-added nature of trading business and competition from dealers for other manufacturers in the segment.

#### **Analytical Approach**

Acuité has considered the standalone business and financial risk profiles of the SKSPD to arrive at the rating.

#### **Outlook: Stable**

Acuité believes that SKSPD will maintain 'Stable' outlook and continue to benefit from the experience of its promoters in the trading business. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining the profitability and improving its capital structure by equity infusion. The outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

#### **About the Rated Entity - Key Financials**

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	39.87	36.94	18.32
EBITDA	Rs. Cr.	1.04	0.93	0.52
PAT	Rs. Cr.	0.47	0.44	0.20
EBITDA Margin	(%)	2.62	2.51	2.81
PAT Margin	(%)	1.17	1.18	1.08
ROCE	(%)	19.16	19.29	25.04
TOL/Tangible Net Worth	Times	9.16	14.80	9.53
PBDIT/Interest	Times	1.83	1.87	1.60
Gross Current Assets (Days)	Days	95	76	105

#### **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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://acuite.in/view-rating-criteria-6.htm>

#### **Note on complexity levels of the rated instrument**

<https://www.acuite.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B/ Stable (Assigned)

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### About Acuité Ratings & Research:

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