

Press Release

Prabhat Steel Traders Private Limited

September 06, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 125.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 125.00 crore bank facilities of PRABHAT STEEL TRADERS PRIVATE LIMITED. The outlook is '**Stable**'.

Mumbai based Prabhat Steel Traders Private Limited (PSTPL) was established in 1968 as a partnership firm by Mr. Satishchandra Jain and family. Subsequently the constitution has been changed to private limited in 2007. PSTPL is engaged in the trading of variety of structural and flat steel products. The company has two warehouse facilities in Kalamb, Maharashtra with a capacity of 50000 tons.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

PSTPL was established as a partnership firm in 1968. In 2007, the company was reconstituted as a private limited company. Its promoters, Mr. Satishchandra Jain and family have been in the trading of steel products for five decades and have developed healthy relations with their customers and suppliers. Its suppliers include reputed names like Hyundai Corporation, Essar Steel, Nippon Steel, to name a few. Acuité believes company's long track record of operations and promoter's extensive experience in the steel industry will help the company maintain stable and healthy relations with its customers and suppliers.

- **Healthy Financial Risk Profile**

PSTPL has healthy financial risk profile marked by a healthy net worth of Rs.35.70 crore (includes Rs.7.00 crore of Quasi Equity) as on March 31st, 2018 (Provisional) against Rs.27.80 crore as on March 31st, 2017. The improvement in net worth is attributable to healthy accretion of reserves over the period. The gearing stood low at 0.01 times as on March 31st, 2018 (Provisional) against 0.02 times as on March 31st, 2017. The total debt as on March 31st, 2018 (Provisional) stood at Rs.0.44 crore, including Rs.0.10 crore of long term loans from the bank, Rs.0.09 crore of unsecured loans from the promoters and Rs.0.25 crore of short term borrowing from the bank. The net cash accruals stood at Rs.6.71 crore in FY2018 (Provisional) against a debt obligation of Rs.0.06 crore. The interest coverage ratio stood at 4.63 times in FY2018 against 4.29 times in the previous year. The total outside liabilities to total net worth ratio stood at 1.70 times as on March 31st, 2018 (Provisional) against 3.45 times as on March 31st, 2017. Acuité believes the company will be able to sustain a healthy financial risk profile on the back of stable revenue growth and a negligible or no long term debt in the near to medium term.

- **Comfortable Working Capital Cycle**

PSTPL has a comfortable working capital cycle reflected by moderate GCA of 98 days in FY2018 (Provisional) against 126 days in the previous year. The GCA days are mainly dominated by a high inventory of 62 days in FY2018 (Provisional) against 73 days in FY2017. The high inventory is on account of variety of steel products offered by the company. The collection period stood at 37 days in FY2018 (Provisional) against 47 days in FY2017.

Weaknesses

- **Stable Revenue Growth**

PSTPL's revenue growth has been stable with a CAGR of ~0.80 per cent from the period of FY2016 to FY2018 (Provisional). The company recorded revenue of Rs.295.81 crore for FY2018 (Provisional) against a revenue of Rs.288.68 crore in FY2017 and Rs.288.94 crore for FY2016. Further the company has booked revenue of Rs.90.00 crore for the period of April 2018 till July 2018.

• 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.

• Susceptibility of margins to fluctuations in steel prices

The profit margins and sales of the company remains exposed to inherent cyclicalities in the steel industry and fluctuations in steel prices.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Prabhat Steel Traders Private Limited to arrive at the rating.

Outlook: Stable

Acuité believes that the company will maintain a Stable outlook over the medium term on account of the management's experience and established relations with clientele. The outlook may be revised to 'Positive' in case of more than expected increase in revenues while improving its profitability and capital structure. Conversely the outlook may be revised to 'Negative' in case of any significant decline in profitability or stretch in its working capital operations impacting the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	295.81	288.68	288.94
EBITDA	Rs. Cr.	9.81	8.79	2.48
PAT	Rs. Cr.	6.55	5.10	1.64
EBITDA Margin	(%)	3.32	3.05	0.86
PAT Margin	(%)	2.21	1.77	0.57
ROCE	(%)	33.25	36.27	15.62
Total Debt/Tangible Net Worth	Times	0.01	0.02	0.04
PBDIT/Interest	Times	4.63	4.29	2.57
Total Debt/PBDIT	Times	0.04	0.06	0.26
Gross Current Assets (Days)	Days	98	126	112

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

Not Applicable

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/view-rating-criteria-20.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	10.00	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE A3+

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About Acuité Ratings & Research:

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