

Press Release

Prabhat Steel Traders Private Limited

November 20, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 125.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Reaffirmed; Outlook revised from Stable to Negative)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 10.00 crore bank facilities and the short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 115.00 crore bank facilities of Prabhat Steel Traders Private Limited (PSTPL). The outlook is revised to '**Negative**' from '**Stable**'.

Revision in Outlook:

The revision in outlook is driven by Acuite's expectation that the operating performance and working capital cycle is likely to be impacted on account of ongoing subdued demand environment. Acuite believes that PSTPL is likely to face pressures on operating margins along with elongation of working capital cycle.

About PSTPL:

Established in 1968 as a partnership firm by Mr. Satishchandra Jain and family, Mumbai based Prabhat Steel Traders Private Limited (PSTPL) is engaged in the trading of variety of structural and flat steel products. Later in 2007, the partnership firm was re-constituted into a private limited company. The company sources hot-rolled, cold-rolled steel coils and plates and other products from domestic as well as foreign markets and caters to the demand generated in the domestic market.

Analytical Approach

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

Key Rating Drivers

Strengths

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

Founded by Mr. Satishchandra Jain in 1968, PSTPL has been engaged in the trading business of steel products for over five decades. Since its inception, the business has been managed by the family and with its reconstitution into a private limited company in 2007, it has been led by Mr. Girish Satishchandra Jain. The promoters of the company have established strong relations with reputed foreign suppliers like Hyundai Corporation (South Korea), Nippon Steel & Sumikin Bussan Corporation (Japan) amongst others. The established presence of the company and extensive experience of the management in the line of business has enabled them to establish strong relationship with its customers and suppliers.

Acuite believes that the company's growth prospects will be supported by management's extensive experience in steel trading industry.

- Moderate Financial Risk Profile:**

PSTPL's financial risk profile is supported by moderate networth and moderate debt protection metrics. PSTPL's networth as on March 31, 2019 stood at Rs. 28.93 crore as compared to Rs. 26.44 crore as on March 31, 2018. Total debt of Rs. 6.82 crore as on March 31, 2019 includes interest free unsecured loans from directors amounting to Rs. 6.01 crore, the same stood at Rs. 7.09 crore with total debt amounting to Rs. 15.29

crore as on March 31, 2018. The company's Total Outside Liabilities/tangible Networth (TOL/TNW) ratio has deteriorated in FY2019 to 3.69 times from 2.81 times for FY2018. The Total outside liabilities majorly comprises creditors (backed by LCs) and unsecured loans from promoters with no stipulated maturity. Interest coverage ratio (ICR) stood at 1.99 times for FY 2019 as against 2.51 times for FY 2018. This is primarily on account of decline in operating margins.

Acuite believes that the financial risk profile of PSTPL will continue to remain moderate over medium term backed by managed debt protection metrics.

Weaknesses

- **Susceptibility of operations to fluctuations in steel prices:**

The company is primarily engaged in import of flat and structural steel products and selling it to traders in India. The operations of players like PSTPL are susceptible to demand scenario of steel products along with fluctuation in steel prices in the global and domestic market. Intervention by the government in the form of minimum import price/ countervailing duties have impacted the margins of the steel importing companies. Sudden spike in steel prices or sluggish demand generally has a significant impact on the operations of players like PSTPL.

PSTPL has seen a deterioration in its operating margins at 2.08 percent in FY 2019 as compared to 3.65 percent in FY 2018, although its operating income has improved at Rs. 300.74 crore for FY 2019 as against Rs. 264.96 crore for FY 2018. The ongoing demand side pressures in the steel industry has resulted in decline in operating margins.

Acuite believes that PSTPL's operations will be susceptible to fluctuation in steel prices and changes in the regulatory environment.

- **Competitive and cyclic nature of industry:**

The steel trading industry remains highly fragmented with large number of organized and unorganized players, which has led to high competition in the industry. Also, the cyclical nature of steel industry is dependent on macro-economic growth factors, having a greater impact on the sustainability of trading companies like PSTPL.

Acuite believes that PSTPL will be highly dependent on the demand and growth in the steel industry to sustain its growth in building its revenue.

Liquidity: Adequate

The liquidity profile is adequate marked by healthy net cash accruals to debt repayment. The company generates net cash accruals of Rs. 2.63 crore as against debt maturity of ~Rs. 0.07 crore. The company avails letter of credit for procurement of raw materials. Total Letter of credit outstanding stood at Rs. 66.19 crore as on September 30, 2019 (provisional) with LC maturing in a range of Rs. 22.89 crore by December 2019. The company has debtors outstanding of Rs. 46.31 crore as on September 30, 2019 (provisional). The company's ability to recover debtors on a timely manner will remain a key monitorable for PSTPL to maintain a healthy liquidity profile.

Rating Sensitivity:

- Significant decline in scale of operation and profitability
- Further increase in GCA (gross current asset) days from existing levels.

Outlook: Negative

Acuite has revised the outlook of PSTPL to 'Negative' due to significant decline in operating margins, which might affect the operating performance and the financial flexibility of the company. The outlook may be revised to 'Stable' in case PSTPL demonstrates significant growth in revenue and operating margins while managing its working capital within acceptable levels. Conversely, the rating may be downgraded in case PSTPL's operating margins declines significantly from existing levels or in case its working capital cycle lengthens substantially.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	300.74	264.96	288.68
EBITDA	Rs. Cr.	6.25	9.67	8.79
PAT	Rs. Cr.	2.49	4.28	5.10
EBITDA Margin	(%)	2.08	3.65	3.05
PAT Margin	(%)	0.83	1.61	1.77
ROCE	(%)	19.78	30.25	36.27
Total Debt/Tangible Net Worth	Times	0.24	0.58	0.34
PBDIT/Interest	Times	1.99	2.51	4.29
Total Debt/PBDIT	Times	0.88	1.40	0.75
Gross Current Assets (Days)	Days	136	117	126

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

Not Applicable

Material Covenants

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Aug-2018	Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	115.00	ACUITE A3+ (Assigned)

*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- / Negative (Reaffirmed; Outlook revised from Stable to Negative)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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