

Press Release

Stemkor International Private Limited

January 15, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE BB plus**) on the Rs. 10.00 crore bank facilities of Stemkor International Private Limited. The outlook is '**Stable**'.

Stemkor International Private Limited (SIPL), incorporated in the year 2012 is engaged in trading of non-ferrous metals including cobalt, nickel, zinc, copper, lead, tin, aluminum etc. Mr. Arif Patel is the promoter and holds 99 percent stake in SIPL, through Crest Metal Industries Private Limited which is the holding company of SIPL. Mr. Arif Patel has experience in sourcing and marketing of non-ferrous metals. The company has exclusive marketing and selling agreement with a large metals and mining company to supply London Metal Exchange registered products to the company. The company also procures material from the local suppliers.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SIPL to arrive at the rating.

Key Rating Drivers

Strengths

• Comfortable financial risk profile

The company has a comfortable financial risk profile marked by tangible network at Rs. 66.11 crore as on 31st March, 2018 as against Rs. 51.11 crore in the previous year. The promoters have backed the growth in operations by regularly infusing funds for working capital. During FY18, the promoters have infused a total of Rs.37.60 Cr. to strengthen the capital base. Owing to this, the capital structure remained healthy with gearing at 0.69x as on 31 March 2018. SIPL has a total debt of Rs.45.64cr of which Rs.45cr is working capital loans. Negligible long term debt on books, helps the company in higher retention of cash as the debt servicing obligation is only in the form of interest. The interest coverage ratio of SIPL has been around 2x. TOL/TNW stood at 2.44 times for FY18 as well as FY17.

Acuité believes that SIPL will be able to maintain a comfortable financial risk profile on the back of regular infusion of capital by promoters.

• Reputed clientele & repeated orders from existing clients & supplier agreement in place

SIPL is engaged in sales of non-ferrous metals & has signed an exclusive marketing and selling agreement with a large metals and mining company to supply London Metal Exchange (LME) registered products for primary sales in the territory of India, Indian subcontinent and secondary markets of Middle East, China, Hong Kong and Singapore. Around 70% of the purchases of SIPL is from a single supplier and its various group companies and gets quantitative discounts at the end of the year. The company caters to some of the large steel manufacturers in India. The company has been catering to these customers since its inception. The customer includes traders, steel manufacturers, and battery manufacturers located in India, Hong Kong, Dubai, China and Singapore. Owing to repeated orders from existing customers and healthy relations of the management with the customers, SIPL's revenue grew at a healthy CAGR of 13% to Rs.561 Cr in FY18 from Rs. 387 Cr in FY16.

• Well managed working capital cycle & comfortable liquidity position

The operating cycle of SIPL is well managed & remained healthy around 20 days for FY18. SIPL's inventory holding is around 20 days including goods in transit. The receivables stood at 50 days. The company takes around 10% in advance on order booking and gives a credit period of 60-90 days

after delivery of goods. The creditor days stood at 52 days for FY18. SIPL has healthy liquidity position which is evident from cash and bank balance of Rs. 101.77 crore which includes bank Fixed Deposit of Rs. 67 Cr. which is against Letter of Credit (LC against 100% FD) & balance in cash & bank balance.

Acuite believes that SIPL's working capital cycle will be comfortable over the medium term backed by comfortable liquidity position.

Weaknesses

• Margins susceptible to foreign exchange fluctuation risk & inherent nature of trading business

Around 50% of SIPL's purchases in FY18 were in the form of imports and its reliance on imports is likely to remain high over the medium term. Though around 45% of sales were in the form of exports which acts as a natural hedge to some extent, absence of any long term sales contract exports and any mismatch in imports and exports might expose SIPL's thin profitability to volatility in forex prices. SIPL follows a policy of hedging around 50% of the net exposure and balance 50% is exposed to the volatilities. With EBITDA margins being thin the risk of foreign exchange volatility still remains on account of unhedged portion and any timing differences on the hedging. Any significant changes in commodity prices due to import pressure and over supply would have an impact on margins of the company. However, the risk of forex volatility is partially mitigated as the company places the purchase contract only after the sales contracts are confirmed. The company routes all the foreign exchange transactions through EEFC account. The company has reported EBITDA margin of 1.62 percent in FY2018 as against 1.20 percent in the previous year. The profitability is very low profitability as it is inherent to the trading nature of the operations.

Outlook: Stable

ACUITE believes that the company will maintain its stable business risk profile on the back of the promoters' extensive experience. The outlook may be revised to positive in case of sustained increase in revenues and accruals while improving its profitability. Conversely, the outlook may be revised to negative in case of significant decline in revenues and accruals or in case of elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	561.22	458.92	387.12
EBITDA	Rs. Cr.	9.10	5.50	3.71
PAT	Rs. Cr.	1.99	1.59	0.84
EBITDA Margin	(%)	1.62	1.20	0.96
PAT Margin	(%)	0.35	0.35	0.22
ROCE	(%)	7.50	8.80	16.68
Total Debt/Tangible Net Worth	Times	0.69	0.41	0.60
PBDIT/Interest	Times	1.94	2.16	1.87
Total Debt/PBDIT	Times	5.01	3.82	4.05
Gross Current Assets (Days)	Days	96	96	106

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/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 BB+ / Stable

Contacts

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About Acuité Ratings & Research:

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