

Press Release

A S Steel Traders

March 05, 2020



Rating Reaffirmed

Total Bank Facilities Rated	Rs. 38.00 crore (Enhancement from Rs.34 crore)
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.38.00 crore bank facilities of A S Steel Traders(ASST). The outlook is '**Stable**'.

Established in 1987, A S Steel Traders (ASST) was promoted by Mr.Nagesh Anumalisetty, Mr.Magesh Anumalisetty, Mr.Jagadish Anumalisetty and Mrs. Lakshmi Anumalisetty. The firm is an authorised distributor of steel products of Rashtriya Ispat Nigam Private Limited (RINL), Steel Exchange India Limited and REC Ispat Private Limited. ASST has an MOU with RINL for stock lifting from the locations of Visakhapatnam, Vijayawada and Hyderabad, and has emerged as one of the leading distributors of RINL in Visakhapatnam region.

About the Group

A.S. Steel Traders (VSP) Private Limited (ASPL) is an iron & steel trading company incorporated in 2003, promoted by Mr.Nagesh Anumalisetty, Mr.Magesh Anumalisetty and Mr.Jagadish Anumalisetty. The company primarily trades in customized steel products such as blooms and billets and all other products of iron and steel available in the market from eminent clients such as RINL, Jindal Steel, TATA Steel BSL Limited and many more to manufacturers and re-rollers situated in states such as Maharashtra, Karnataka, Gujarat and Chhattisgarh.

Analytical Approach

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of A S Steel Traders (ASST) and A.S. Steel Traders (VSP) Private Limited (ASPL), collectively referred to as A S Group, as both the entities are into similar line of business, common management and significant operational linkages

Key Rating Drivers

Strengths

- Experienced Management and long track record of operations**

The promoters of the group,Mr. Nagesh Anumalisetty and his brothers have more than three decades of experience in the iron & steel industry. Acuité believes that the extensive experience of the management has enabled the group to maintain healthy relationships with their key customers and suppliers.

- Reputed Clientele with diversified geographical presence**

AS Group has been dealing with Rashtriya Ispat Nigam Private Limited (RINL) as authorised distributor for more than a decade and has an MOU with the same for stock lifting from the locations of Vishakapatnam, Vijaywada and Hyderabad. In addition, the group deals with various customized products of Jindal Steel, TATA Steel BSL Private Limited to wide client base located in states including

Maharashtra, Karnataka, Gujarat and Chhattisgarh. As a result AS Group has reported healthy revenue growth with compounded annual growth rate (CAGR) of 20.11 per cent during the last three years ended FY2019. The group reported income of Rs. 684.19 crores in FY2019 and Rs.394.89 in FY2017. Acuité believes the group's healthy relationship with customers and its diversified geographical presence will support the revenues growth of the group going forward.

- **Efficient working capital management**

A S Group's operations are efficiently managed with gross current asset (GCA) of 75 days in FY2019 as compared to 85 days in FY2018 due to marginal improvement in debtor days from 56 days in FY2018 to 53 days in FY2019 and inventory days from 19 days in FY2018 to 16 days in FY2019. A S Group enjoys close proximity to the steel plant of Rashtriya Ispat Nigam Limited (RINL) resulting in timely availability of the products at their yards. The moderate working capital cycle is reflected by the group's moderate bank limit utilization levels at 62 percent for the past six months ended January 2020. Acuité believes that being trading nature of operations with diversified clientele, the working capital operations are expected to be at similar levels over the medium term.

Weaknesses

- **Moderate financial risk profile**

The group's moderate financial risk profile is marked by modest net worth, high gearing and moderate debt protection metrics. The net worth of the company improved to Rs.33.92 crores as on FY2019 from Rs.29.35 crores as on FY2018 due to retention of profits. The group has gearing at 2.35 times as on March 31, 2019 as against 2.46 times as on March 31, 2018. The debt of Rs.79.78 crore mainly consists of long term debt of Rs.6.94 crore, short term debt of Rs.71.99 crore, unsecured loan of Rs.0.01 crore and maturing obligation of Rs.0.85 crore as on 31st March 2019. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.63 times as on March 31, 2019 as against 3.39 times as on March 31, 2018. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio at 1.86 times as on FY2019 as against 1.70 times as on FY2018, Debt Service Coverage Ratio stood at 1.67 times as on FY2019 as compared to 1.56 times as on FY2018 and Net Cash Accruals to total Debt (NCA/TD) stood at modest levels of 0.14 times for FY 2019 as compared to 0.09 times for FY 2018. Acuité believes that the financial profile of the group is expected to improve backed by steady accruals and in the absence of debt funded capex plan over the medium term.

- **Low profitability margins**

A S group deals with customized products with low profitability margins due to limited value addition. The group's operating margin stood low at 1.75 per cent in FY 2019 as against 2.05 per cent in FY2018 and profit after tax(PAT) margin stood stagnant at 0.69 per cent in FY2019 as compared to 0.62 per cent in FY2018. Acuité believes that the ability of the company to improve its profitability metrics going forward will remain a key rating sensitivity.

Rating Sensitivity

- Improvement in financial risk profile
- Improvement in the scale of operation while improving profitability margins

Material Covenants

None

Liquidity Profile

The group's company's liquidity is adequate marked by moderate net cash accruals of Rs.5.30 crores in FY2019 as against maturing obligation of Rs.0.85 crore over the same period. The net cash accruals are expected to be largely sufficient in order to service its long term debt obligations. The cash accruals of AS Group are believed to be in the range of 6-10 crore during 2020-22 as against maturing debt obligation of Rs.0.85 Crore each year. The current ratio stood at 1.23 times in FY 2019. The bank limit remains utilized at 62 per cent over six months ended on January, 2020. The unencumbered cash and bank balances of the company stood at Rs.3.54 crores as on 31st March 2019. The company's working capital moderate operations as reflected by Gross Current Assets (GCA) of 73 days in FY2019 as against 82 days in FY2018. Acuité believes that the liquidity of A S group continues to remain

adequate supported by moderate accruals, working capital efficient operations and no debt funded capex plans.

Outlook: Stable

Acuité believes that going forward, the outlook on A S Group will remain 'Stable' over the medium term on account of their experienced promoters, long track record of operations of the group and reputed clientele. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any significant debt-funded capital expenditure plan leading to deterioration of the capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	684.19	513.95
PAT	Rs. Cr.	4.72	3.17
PAT Margin	(%)	0.69	0.62
Total Debt/Tangible Net Worth	Times	2.35	2.43
PBDIT/Interest	Times	1.86	1.70

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
06-Feb-2019	Cash Credit	Long Term	24.00	ACUITE BBB- (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore	Ratings/Outlook
Cash Credit	30/01/2019	Not Applicable	Not Applicable	28.00	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	30/01/2019	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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