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RATINGS & RESEARCH

Press Release

A S Steel Traders Vsp Private Limited

D-U-N-S® Number: 67-621-4414

February 18, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 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 triple B minus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs. 50.00 crore bank facilities of A S Steel Traders Vsp Private Limited (ASPL). The outlook is **'Stable'**.

ASPL is a Visakhapatnam based iron & steel trading company incorporated in 2003, promoted by Mr. A. Nagesh, Mr. A. Magesh and Mr. A. Jagadish. The company started its operations in 2006 and primarily trades in value added products of RINL - blooms, billets, rounds of RINL as authorised distributor in Visakhapatnam, Hyderabad and Vijayawada. It also does distribution of flats / sheets of Bhushan Steels / Tata Steel.

About the Group:

A.S. Steel Traders (ASST), established in 1987, is promoted by Mr. A. Nagesh along with his brothers, Mr. A. Magesh, and Mr. A. Jagadish and his sister, Mrs. A. Lakshmi. It is an authorised stockiest and distributor of TMT Bars and other value added products of Vizag Steel (an entity of Rashtriya Ispat Nigam Ltd - RINL). It is also an authorised distributor for Steel Exchange India Limited and REC Ispat Pvt Ltd. ASST has an MOU with RINL for stock lifting from the locations of Visakhapatnam, Vijayawada and Hyderabad, and it is one of the leading distributors of RINL in Visakhapatnam region.

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, owned and managed by the same promoters. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Extensive experience of promoters and long association with RINL**

  The promoters of the group have more than three decades of experience in the Iron & Steel industry. The promoters' have been in the iron and steel trading business since 1987. Since inception, A S Group has been dealing with RINL as authorised stockist and Distributor; and over a period, its volume and MOU quantities have improved significantly to about 75,000 metric tonnes per annum. Further, the group diversified geographically to other regions of Vijayawada and Hyderabad. These lead to improvement in revenue profile at a compound annual growth rate (CAGR) of 13.75 percent over the past three years through FY2018 at Rs.535.36 crore. Further, A S group has reported revenues of Rs.528.00 crore for 9MFY2019. Acuité believes that long vintage of operations, diversified presence and penetration into the fast developing region of Vijayawada and experienced managed team are expected to support in improving its business risk profile over the medium term.

- **Efficient working capital management**

  A S Group's operations are efficiently managed with gross current asset (GCA) of about 81 days in FY2018, an improved from 132 days in FY2017 due to improvement in debtor days from 97 days in FY2017 to 54 days in FY2018. The inventory and receivable levels are high in FY2017 due to demonetisation and slow movement of the inventory and realisations. A S Group holds traded goods inventory of up to 35 days to service customers on time and about 60-70 percent of the materials are order backed, mitigating the price fluctuation risk to a certain extent. On the other hand, the company allows a credit period of 30-45 days historically through past three years. The moderate working capital cycle is reflected by the group's moderate bank limit utilisation levels at 77 percent for the past six months ended October 2018. Acuité believes that being trading nature of operations with diversified client base, the working capital operations continues to be efficient and are expected to be at similar levels over the medium term.

Weaknesses

• **Moderate financial risk profile**

The financial risk profile of the Group is moderate marked by leveraged capital structure comprising of high gearing (debt-equity), high total outside liabilities to total net worth (TOL/TNW), modest net worth and moderate debt protection metrics. The group's gearing is high at 2.46 times as on March 31, 2018, though a marginal improvement from 2.82 times in FY2017. TOL/TNW is high at 3.39 times as on March 31, 2018 as against 4.58 times in FY2017; high being trading nature of operations and modest margins. The net worth is modest at Rs.29.35 crore as on March 31, 2018. However, its debt protection metrics are moderate with Interest Coverage Ratio (ICR) at 1.70 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.05 times as on March 31, 2018. Highly leveraged structure is attributed to trading nature of operations with thin profitability margins in the range of 1.29 - 1.97 per cent over the past three years. Acuité believes that the financial profile of the group is expected to be at similar levels over the medium term in the absence of significant debt-funded capex plans, moderate accretions to reserves and low profitability margins.

• **Highly fragmented and competitive business**

A S group is in commoditised product with modest profitability margins. The group's profitability margins are modest in the range of 1.29 - 1.97 per cent over the past three years through FY2018; due to trading nature of operations. Further, volatile prices and commodity nature of products, without any volume and value commitment from the customers, is exposed to price sensitivity. Further, the prices of steel are linked to global prices due to changes in inputs costs. However, volatility in prices, to some extent, has been offset by moderate inventory levels being maintained by the group. Sustenance of the growth and profitability are key rating sensitivity factors over the medium term.

Liquidity Position:

Liquidity of A S Group is moderate marked by generation of cash accruals of Rs.3.54 crore in FY2018; A S Group is expected to generate cash accruals in the range of Rs.4.50 to 6.50 crore over the medium term against its repayment obligations of Rs.0.17 crore. It has a conservative debt approach as working capital cycle is reflected by the group's moderate bank limit utilisation levels at 77 percent for the past six months ended October 2018. The current ratio of A S Group is moderate at 1.24 times as on March 31, 2018. Acuité believes that the liquidity of A S group continues to remain moderate supported by moderate accruals to backing the incremental working capital requirements.

Outlook: Stable

Acuité believes that the outlook on A S Group will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant unplanned debt-funded capital expenditure leading to deterioration of its capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	535.36	397.66	417.88
EBITDA	Rs. Cr.	10.54	8.09	9.42
PAT	Rs. Cr.	3.17	1.99	1.68
EBITDA Margin	(%)	1.97	2.03	2.26
PAT Margin	(%)	0.59	0.50	0.40
ROCE	(%)	10.18	8.74	23.83
Total Debt/Tangible Net Worth	Times	2.46	2.82	1.92
PBDIT/Interest	Times	1.70	1.54	1.35
Total Debt/PBDIT	Times	6.67	9.31	5.33
Gross Current Assets (Days)	Days	81	132	89

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
- 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)
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	35.00	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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