

Press Release

Bishweshwar Lal Steels

June 30, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs.30.00 crore bank facilities of Bishweshwar Lal Steels (BLS). The outlook is **'Stable'**.

Bishweshwar Lal Steels was established as partnership firm in the year 1998 by Mr. Deepak Gupta and Mr. Arun Kumar. The firm is engaged in trading of steel products such as Metal Sheet and Plate, HR coil, MS Angle and Crane Rails to name a few. Bishweshwar Lal Steels is authorized dealer for JSW Steels and JSPL. The firm has established relationship with suppliers with more than two decades and is tier-I dealer for above brands. The day to day operations are managed by partners Mr. Deepak Gupta and Mr. Arun Kumar.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of BLS to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management, long track record of operations**

BLS has been in operations since 1998. The partners of BLS Mr. Deepak Gupta and Mr. Arun Kumar have experience of more than three decades in trading of steel products. The long track record of operations has helped establish healthy relations with reputed customers and suppliers.

Acuite believes that BLS will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the firm is moderate marked by moderate net worth, comfortable gearing and moderate debt protection metrics. The net worth of the firm stood moderate at Rs.20.49 crore as of 31 March 2019 vis-à-vis Rs.18.33 crore as of 31 March 2018. Its gearing (debt -equity) is moderate at 1.89 times as on March 31, 2019 as against 1.82 times as on March 31, 2018. The total debt of Rs.38.69 crore consists Rs.28.79 crore of short term debt, Rs.9.81 crore of unsecured loans and long term debt of Rs.0.09 crore as on 31 March, 2019. The interest coverage ratio (ICR) of the firm stood moderate at 1.22 times in FY2019 vis-à-vis 1.26 times in FY2018. The debt service coverage ratio (DSCR) of the firm stood at 1.15 times in FY2019 as compared to 1.12 times in FY2018.

Acuite believes the firm to maintain its financial risk profile near to medium term in absence of major debt funded capex plans.

Weaknesses

- **Working capital intensive operations**

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 184 days as of 31 March 2019 as compared to 85 days as of 31 March 2018. These high GCA days emanates from high debtor days of 67 and high inventory days of 119 as of 31 March 2019 as compared to debtor days of 85 and inventory days of 56 as of 31 March 2018.

- **Susceptibility to volatility in raw material prices**

The firm purchases steel and steel products hence, the prices of these commodities are highly volatile in nature. Thus, the margins of the firm are susceptible to the volatility in raw material prices. However, the risk is mitigated to an extent as the procurement is done only once the orders have been received from the customers. Moreover, the low profit margins are primarily due to trading nature of operations.

• **Presence in highly competitive and fragmented industry with exposure to inherent cyclicality**

The firm is operating in competitive and fragmented nature of industry. There are several players who are engaged in trading of steel products business in organized and unorganized sector. Further, profit margins and the sales of the firm remains exposed to inherent cyclicality in the steel industry and global demand supply dynamics.

Liquidity position: Stretched

BLS has stretched liquidity profile, net cash accruals stood below Rs.1.00 crore for the period under study, further the firm has minimal debt obligation as low as Rs.0.04 crore as of 31st March 2019. The cash accruals are estimated to remain below Rs.1.00 crore over the near to medium term, while the repayment obligations estimated to be ~Rs.0.05 crore over the medium term, as the firm is not expected to undertake debt funded capital expenditure over the near to medium term. The working capital operations are intensive marked by marked by Gross Current Asset (GCA) days of 184 as on 31 March 2019. The firm has unencumbered cash and bank balance of Rs.0.13 crore as on 31 March 2019. The working capital intensity is also reflected through their high utilization of bank limits of around 98 to 100 percent in the last six months till March 2020. The current ratio of the firm stood at 1.65 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of below average cash flows from operations and working capital intensive operations over the medium term.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Any deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuite believes BLS will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established operations and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected cash accruals on the back of sustained growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in the firm's profitability or significant deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	142.77	229.02
PAT	Rs. Cr.	0.69	0.81
PAT Margin	(%)	0.48	0.36
Total Debt/Tangible Net Worth	Times	1.89	1.82
PBDIT/Interest	Times	1.22	1.26

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

None

Any other information

None

Applicable Criteria

- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Apr-2019	Cash Credit	Long Term	12.50	ACUITE BB/Stable (Assigned)
	Proposed Cash Credit	Long Term	0.20	ACUITE BB/Stable (Assigned)
	Channel/ Dealer/ Vendor Financing	Long Term	9.80	ACUITE BB/Stable (Assigned)
	Channel/ Dealer/ Vendor Financing	Long Term	7.50	ACUITE BB/Stable (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	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BB/Stable (Reaffirmed)
Channel/ Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB/Stable (Reaffirmed)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB/Stable (Reaffirmed)
Channel/ Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	9.80	ACUITE BB (Withdrawn)

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About Acuité Ratings & Research:

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