

Press Release

WESTERN STAINLESS STEEL LLP

September 21, 2020



Rating Upgraded, Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.16.12 Cr. (Enhanced from Rs.6.12Cr.)
Long Term Rating	ACUITE B+/Outlook: Stable (Upgraded from ACUITE B/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.13.84 Crore bank facilities of Western Stainless Steel LLP (WSSL). The outlook is '**Stable**'.

Also, Acuité has assigned the long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.2.28Cr bank facilities of WSSL. The outlook is '**Stable**'.

The rating is upgraded on account of mitigation of project risk, experienced management and healthy financial performance in the first year of its operation.

Established in the year 2018, WSSL is a Delhi based limited liability partnership firm. The firm is promoted by Mr. Vishal Aggarwal, Mr. Gaurav Aggarwal and Mr. Arun Aggarwal. The firm started its commercial production from February, 2019. The firm is engaged in manufacturing of stainless steel ingots. The firm has its manufacturing unit located at Village Kerala in Gujarat with an installed capacity of 1200 MTPM.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

WSSL was established in the year 2018. The firm is promoted by Mr. Vishal Aggarwal, Mr. Gaurav Aggarwal and Mr. Arun Aggarwal. The partners of the firm have experience of more than a decade in the aforementioned industry through association with companies like, Vishal Ferro Alloys Private Limited, Bajrang Steel and Alloys Limited, etc., which have an established presence in the steel industry. The extensive experience of the partner's has helped the firm to maintain a healthy relationship with its customers and suppliers. In its first year of operation, in FY2020, the firm's operating income stood at Rs.76.52 crore (Prov.).

Acuité believes that the firm will benefit from the extensive experience of the partners, along with a healthy relationship with its customer and suppliers.

- **Moderate financial risk profile**

WSSL's financial risk profile is moderate, marked by moderate net worth, low gearing and moderate debt protection metrics. The firm's net worth is moderate and is estimated at around Rs.19.12 crore (Prov.) as on March 31, 2020. The gearing is low and it is estimated to be at around 0.36 times (Prov.) as on March 31, 2020. The total outstanding borrowing as on March 31, 2020 is Rs.6.80crore which includes long term borrowings of Rs.1.86crore, unsecured loans from the directors of Rs1.37crore and short term borrowing of Rs.3.57crore. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stand at 0.36 times (Prov.). The firm, on the other hand, generated cash accruals of Rs.0.67crore (Prov.) in FY2020. The NCA/TD and interest coverage ratio for FY2020 stands at 0.10times (Prov.) and 1.37times (Prov.) respectively. The Debt-EBITDA ratio stands at 2.74 times (Prov.) in FY2020. Acuite expects the firm to maintain a moderate financial risk profile in the absence of many major debt-funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

WSSL's working capital operation is intensive in nature as it is reflected by its Gross Current Asset (GCA) days of around 104 days (Prov.) in FY2020. The working capital cycle day stands at 65 days (Prov.) in FY2020. The firm maintains an inventory holding period of 30 days (Prov.) as on 31 March, 2020. RVL has receivable days of 36 (Prov.) as on 31 March, 2020. The average bank limit utilization stood moderate at around 57.71 percent for six months ended in July, 2020, while its peak utilization was high at around 99.67 percent during the same period. Acuite expects the working capital management to remain intensive over the medium term on account of stretched receivables.

- **Limited track record of operation**

The firm commenced its commercial operation in February 2019. Hence the ability of the firm to endure the various business cycles is yet to be demonstrated.

- **Limited track record of operation**

The firm operates in a highly competitive and fragmented industry, characterized by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm. However, this can be partially offset by the extensive experience of the partners in the aforementioned business line.

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.67crore (Prov.) in FY2020 as against the maturing debt obligations of Rs.0.55crore during the same period. The cash accrual of the firm is estimated to remain around Rs.0.40crore to Rs.80crore during 2021-23 against repayment obligations of around Rs.0.70crore to Rs.1.10crore during the same period. The firm's working capital operations are intensive, marked by the Gross Current Asset (GCA) days of 104 days (Prov.) in FY2020. The average bank limit utilization stood moderate at around 57.43 per cent for six months ended in July, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.09crore (Prov.) as on 31 March 2020. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of its initial stage of operation and will rely on the ability of the partners to fund the liquidity deficit in the initial stage of operation.

Rating Sensitivities

- Any deterioration in the working capital cycle and liquidity profile of the firm
- Significant improvement in the operating performance of the firm

Outlook: Stable

Acuite believes that WSSL will maintain a stable outlook over the medium term backed by its experienced management in the aforementioned industry. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)*
Operating Income	Rs. Cr.	76.52	5.07
PAT	Rs. Cr.	0.23	(1.10)
PAT Margin	(%)	0.30	(21.74)
Total Debt/Tangible Net Worth	Times	0.36	1.09
PBDIT/Interest	Times	1.37	0.19

*The firm commenced its commercial operations in February, 2019.

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-July-2019	Overdraft/Cash Credit	Long Term	3.50	ACUITE B/Stable (Assigned)
	Term Loans	Long Term	2.22	ACUITE B/Stable (Assigned)
	Bank Guarantee	Short Term	0.40	ACUITE A4 (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
Overdraft/Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00 (Enhanced from Rs.3.50crore)	ACUITE B+/Stable (Upgraded)
Term Loans	August, 2019	Not Applicable	April,2026	1.86	ACUITE B+/Stable (Upgraded)
Working Capital Demand Loan	November, 2020	Not Applicable	August, 2022	0.90	ACUITE B+/Stable (Assigned)
Working Capital Term Loan	October, 2021	Not Applicable	September, 2024	0.99	ACUITE B+/Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.39	ACUITE B+/Stable (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.36	ACUITE B+/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.12 (Enhanced from Rs.0.40crore)	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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