

Press Release

Vitson Steel Corp Private Limited

August 13, 2019



Rating Assigned

| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 25.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 25.00 crore bank facilities of VITSON STEEL CORP PRIVATE LIMITED. The outlook is '**Stable**'.

Kerala-based, Vitson Steel Corp Private Limited (VSPL) was incorporated in 2012 as a private limited company. The company is authorised distributor of JSW Neo Steel TMT Bars in Central and South Kerala. The Directors of the company are Mr. Ramesh Prabhu and Mrs. Rajasree Prabhu.

Analytical Approach

Acuité has consolidated the business and financial risk profile of Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSPL) and Veeyem Distributors Private Limited (VDPL) together referred to as the 'Prabhu Group' (PG). The consolidation is in view of the similar line of business, operational and financial synergies and common management. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Prabhu Group (PG) comprises of three companies, Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSPL) and Veeyem Distributors Private Limited (VDPL). PS was established in 1996, VSPL was incorporated in 2012 and VDPL was incorporated in 2016. Thus, the group has an operational track record of over two decades. The promoters of the group have an experience of over two decades in the trading industry. Hence, long track records of operations and vast experience of management have helped the group develop healthy relationship with its customers and suppliers. Acuité believes that PG will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Reputed dealership contracts resulting in diversified revenue profile**

The group is engaged in trading of TMT bars for TATA Steel Limited and JSW Steel Limited. PS is an authorised distributor of TATA Steel Limited products in Kerala. Also, PS is planning to expand and diversify its business by dealing into distribution of Dulux Paints and also into Cement distribution. VSPL is an authorised distributor of TMT bars of JSW Steel Limited in Central and South Kerala. Further, VDPL is an authorized distributor of TMT bars of JSW Steel Limited in North Kerala. Thus, the group has exposure to wide customer base in Kerala.

- **Average financial risk profile**

The financial risk profile of the group stood average marked by average net worth, debt protection metrics and coverage indicators. The net worth of PG stood at Rs. 79.03 crore as on 31 March, 2019 (Provisional) as against Rs. 53.26 crore as on 31 March, 2018. The gearing (debt-equity) stood at 1.73 times as on 31 March, 2019 (Provisional) as against 2.01 times as on 31 March, 2018. The total debt of Rs. 136.44 crore as on 31 March, 2019 (Provisional) mainly comprises Rs. 133.99 crore of working capital borrowings, Rs. 0.04 crore of unsecured loans and Rs. 2.42 crore of long term debt. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 2.04 times for FY2019 (Provisional) as against 2.63 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.08 times in FY2019 (Provisional) and 0.11 times in FY2018. Debt to EBITDA stood high at 4.65 times for FY2019 (Provisional) as against 3.99 times for FY2018. Acuité believes that the financial risk profile of the group is expected to remain average backed by average net cash accruals and in the absence of any major debt funded capex in near to medium term.

- **Moderate working capital operations**

The group has moderate working capital nature of operations marked by Gross Current Assets (GCA) of 104 days for FY2019 (Provisional) as against 93 days for FY2018. The debtors stood at 52 days for FY2019 (Provisional) as against 42 days for FY2018. The inventory level stood at 40 days for FY2019 (Provisional) as against 44 days for FY2018. However, the average bank limit utilization stood at ~94.51 percent for past six months ended June 2019. Acuité believes that the group's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Weaknesses

- **Uneven profitability**

The operating margins of the group have shown uneven trend for the period under study FY2017-19 (Provisional). EBITDA margins stood at 4.08 per cent in FY2019 (Provisional) as compared to 4.18 percent in FY2018 and 3.44 per cent in FY2017. The PAT margins stood at 1.19 per cent in FY2019 (Provisional) as compared to 1.43 percent in FY2018 and 1.38 per cent in FY2017. The uneven trend is due to the group being susceptible to fluctuations in raw material (i.e. steel) prices and due to cyclical nature of steel trading industry.

- **Susceptibility to cyclical nature of industry and Competitive nature of industry**

The steel consumption is majorly dependent on the economic activities taking place in and around the country. The end user industry being Infrastructure and Real Estate, any significant slowdown in these industries will impact the revenues of steel players. Further, PG competes with various players in the organized and unorganized segments in the steel trading industry, thus limiting the pricing power.

Liquidity Position

PG has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 10.81 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 1.90 crore for the same period. The cash accruals of the group are estimated to remain in the range of ~Rs. 12.00 crore to Rs. 20.00 crore during 2020-22 against debt obligation in the range of ~ Rs. 0.50 crore to Rs. 1.00 crore. The group has moderate working capital operations marked by GCA days of 104 days for FY2019 (Provisional). The group maintains unencumbered cash and bank balances of Rs. 1.27 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.31 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that PG will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Group

Kerala based, Prabhu Group (PG) includes Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSPL) and Veeyem Distributors Private Limited (VDPL). The group is promoted by Prabhu Family in 1996. The group is an authorized distributor of TMT bars for TATA Steel Limited and JSW Steel Limited in Kerala.

About the Rated Entity - Key Financials (Consolidated)

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 715.13 | 638.98 | 652.50 |
| EBITDA | Rs. Cr. | 29.20 | 26.71 | 22.44 |
| PAT | Rs. Cr. | 8.53 | 9.15 | 9.04 |
| EBITDA Margin | (%) | 4.08 | 4.18 | 3.44 |
| PAT Margin | (%) | 1.19 | 1.43 | 1.38 |
| ROCE | (%) | 14.46 | 15.94 | 28.54 |
| Total Debt/Tangible Net Worth | Times | 1.73 | 2.01 | 2.47 |
| PBDIT/Interest | Times | 2.04 | 2.63 | 3.55 |
| Total Debt/PBDIT | Times | 4.65 | 3.99 | 4.47 |
| Gross Current Assets (Days) | Days | 104 | 93 | 75 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 | 25.00* | ACUITE BBB- / Stable (Assigned) |

*Cash Credit limit includes sublimit of Working Capital Demand Loan (WCDL) to the extent of Rs. 21.00 crore and Bill Discounting (BD) to the extent of Rs. 5.00 crore.

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About Acuité Ratings & Research:

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