

## Press Release

### Vitson Steel Corp Private Limited

February 10, 2021

Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.52.50 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.52.50 Cr. bank facilities of Vitson Steel Corp Private Limited (VSCPL). The outlook is **'Stable'**.

Kerala based, VSCPL was incorporated in 2012 as a private limited company. The company is authorized distributor of JSW Steels Limited- JSW Neo Steel TMT Bars in Central & South Kerala. The directors of the company are Mr. Ramesh Prabhu and Mrs. Rajasree Prabhu.

### Analytical Approach

During the last rating exercise, Acuite had consolidated the business and financial risk profile of Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSCPL) and Veeyem Distributors Private Limited (VDPL) together referred to as the 'Prabhu Group' (PG). During the current rating exercise, Acuite has also included one more entity, PromoteN along with the other three entities. The consolidation is in view of the similar line of business, strong operational and financial synergies and common management. Extent of Consolidation: Full.

### About the Group

#### Prabhu Steels

Kerala based, Prabhu Steels (PS) was established as a partnership firm in 1996. The firm is a sole authorized distributor of TATA Steels Limited products in Kerala. The products are mainly TMT Bars, Tubes, Sheets, Doors and Windows. The partners of the firm are Mr. Manoj Prabhu and Mrs. Rajasree Prabhu.

#### Veeyem Distributors Private Limited

Kerala based, VDPL was incorporated in 2016 as a private limited company. The company is authorized distributor of JSW Steels Limited- JSW Neo Steel TMT Bars in North Kerala. The directors of the company are Mr. Manoj Prabhu, Mr. Ramesh Prabhu and Mrs. Rajasree Prabhu.

#### PromoteN

Kerala based PromoteN was established in 2017 as a partnership firm and started operations in 2019. The firm is an authorized distributor of Jindal Steel and Power Limited (JSPL) TMT bars in Kerala. The partners of the firm are Mr. Manoj Prabhu and Mrs. Rajasree Prabhu.

### Key Rating Drivers

#### Strengths

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

Prabhu Group (PG) comprises of four companies, Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSPL), Veeyem Distributors Private Limited (VDPL) and PromoteN. The group has an operational track record of over two decades in the steel trading. The promoters of the group, Mr. Manoj Prabhu, Mr. Ramesh Prabhu and Mrs. Rajasree Prabhu have an experience of over two decades in the steel industry. The long track records of operations and vast experience of management has helped the group develop healthy relationship with its customers and suppliers.

The group is engaged in trading of TMT bars Tubes, Sheets, Doors and Windows for TATA Steel Limited, and TMT bars for JSW Steel Limited & JSPL. PS is an authorized distributor of TATA Steel Limited products in Kerala. VSPL is an authorized distributor of TMT bars of JSW Steel Limited in Central and South Kerala, VDPL is an

authorized distributor of TMT bars of JSW Steel Limited in North Kerala, while PromoteN is an authorized distributor of TMT bars for JSPL in Kerala. Thus, the group has exposure to wide customer base in Kerala.

Acuite believes that PG will sustain its existing business profile on the back of established track record of operations and experienced management.

#### • **Moderate financial risk profile**

The Prabhu group has moderate financial risk profile mainly marked by healthy net worth, moderate gearing and debt protection matrices.

The net worth of the group seen marginal improvement to Rs.88.70 crore as on 31 March 2020 from Rs.86.53 crore as on 31 March 2019. The reduction in debt levels in FY2020 resulted in marginal improvement in the gearing levels to 1.61 times as on 31 March 2020 from 1.75 times as on 31 March 2019. The total debt as on 31 March 2020 mainly comprised of working capital limits from the banks.

The increase in the interest cost coupled with marginal deterioration in the profitability levels resulted in deterioration in the debt protection matrices marked by Interest Coverage Ratio (ICR) of 1.73 times for FY2020 as against 2.27 times for FY2019. The debt to EBITDA levels continued to remain high at 5.43 times for FY2020 as against 5.12 times for FY2019 mainly due to lower margins on account of trading nature of business.

Acuite believes that the financial risk profile is expected to remain at the similar levels in the absence of any major debt funded capex in near to medium term.

### **Weaknesses**

#### • **Uneven profitability trend**

The group reported moderation in the operating performance in FY2020 mainly due to lower than expected sales traction in last two months of FY2020 due to covid-19 pandemic. This led to decline in the operating margins of the group to 3.59 percent for FY2020 as against 3.89 percent for FY2019. The PAT margins also deteriorated to 0.86 percent in FY2020 as against 1.28 percent in FY2019 mainly due to increase in the interest cost. The revenue pressure continued until Q1FY2021 and then stabilized post July 2020.

Acuite believes that there will be revenue contraction in FY2021; however, the margins are expected to improve mainly due to upswing in the steel sector also supported by Government's focus on infrastructure development resulting improved demand scenario.

#### • **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: Adequate**

The group has adequate liquidity position marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.8.91 crore for FY2020, while its maturing debt obligations were Rs.1.29 crore for the same period. The cash accruals of the group are estimated to remain in the range of ~Rs.10.00-13.00 crore during FY2021-23 against debt obligation in the range of ~ Rs.1.50 crore to Rs.2.50 crore. The group has moderately managed working capital operations marked by GCA days of 106 days for FY2020. The group maintains cash and bank balances of Rs.6.80 crore as on 31 March 2020. The current ratio stood at 1.32 times as on 31 March 2020. Acuite 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 and moderate utilisation of its working capital limits.

### **Rating Sensitivities**

- Substantial improvement in scale of operation and profitability levels
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

### **Material Covenants**

None

### Outlook: Stable

Acuite 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 Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	729.05	772.79
PAT	Rs. Cr.	6.25	9.92
PAT Margin	(%)	0.86	1.28
Total Debt/Tangible Net Worth	Times	1.61	1.75
PBDIT/Interest	Times	1.73	2.27

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.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
13-Nov-19	Cash Credit	Long term	16.50	ACUITE BBB-/Stable (Reaffirmed)
	Channel Financing	Long term	10.00	ACUITE BBB-/Stable (Reaffirmed)
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	Channel Financing	Long term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Channel Financing	Long term	6.00	ACUITE BBB-/Stable (Reaffirmed)
13-Aug-19	Cash Credit	Long term	25.00	ACUITE BBB-/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	16.50	ACUITE BBB-/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Stable (Reaffirmed)

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**About Acuité Ratings & Research:**

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