

Press Release

Prabhu Steels

November 13, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 84.00 Cr. (Enhanced from Rs. 25.00 crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 84.00 crore bank facilities of PRABHU STEELS. The outlook is '**Stable**'.

Kerala based, Prabhu Steels (PS) was established as a partnership firm in 1996. The firm is an authorized distributor of TATA Steel 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.

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 has 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 authorized distributor of TATA Steel Limited products in Kerala. Further, PS is planning to expand and diversify its business by dealing into distribution of Dulux Paints and also into Cement distribution. VSPL is an authorized distributor of TMT bars of JSW Steel Limited in Central and South Kerala. Also, 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. 78.18 crore as on 31 March, 2019 as against Rs. 53.26 crore as on 31 March, 2018. The gearing (debt-equity) stood at 1.75 times as on 31 March, 2019 as against 2.01 times as on 31 March, 2018. The total debt of Rs. 136.56 crore as on 31 March, 2019 mainly comprises Rs. 134.14 crore of working capital borrowings and Rs. 2.42 crore of long term debt. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 2.18 times for FY2019 as against 2.63 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.08 times in FY2019 and 0.11 times in FY2018. Debt to EBITDA stood high at 4.85 times for FY2019 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.

- **Efficiently managed working capital operations**

The group has efficiently managed working capital operations marked by Gross Current Assets (GCA) of 101 days for FY2019 as against 87 days for FY2018. The debtors stood at 48 days for FY2019 as against 36 days for FY2018. The inventory level stood at 40 days for FY2019 as against 43 days for FY2018. However, the average bank limit utilisation stood at ~94.18 per cent for past six months ended Sept 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. EBITDA margins stood at 3.94 per cent in FY2019 as compared to 4.14 per cent in FY2018 and 3.44 per cent in FY2017. The PAT margins stood at 1.21 per cent in FY2019 as compared to 1.42 per cent 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.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs.850.00-900.00 crore), while maintaining profitability margin of around 4 per cent over the medium term.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

- Unsecured loans infused by the promoters shall not be withdrawn during the tenure of the bank loan. However, the same has been withdrawn as on 31 March 2019.

Liquidity Position

PG has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 10.91 crore for FY2019, while its maturing debt obligations were Rs. 1.99 crore for the same period. The cash accruals of the group are estimated to remain in the range of ~Rs. 13.00 crore to Rs. 21.00 crore during 2020-22 against debt obligation in the range of ~ Rs. 0.50 crore to Rs. 1.50 crore. The group has efficiently managed working capital operations marked by GCA days of 101 days for FY2019. The group maintains unencumbered cash and bank balances of Rs. 1.31 crore as on 31 March, 2019. The current ratio stood at 1.32 times as on 31 March, 2019. 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 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	711.33	638.98	652.50
EBITDA	Rs. Cr.	28.01	26.71	22.44
PAT	Rs. Cr.	8.64	9.15	9.04
EBITDA Margin	(%)	3.94	4.18	3.44
PAT Margin	(%)	1.21	1.43	1.38
ROCE	(%)	13.85	15.94	28.54
Total Debt/Tangible Net Worth	Times	1.75	2.01	2.47
PBDIT/Interest	Times	2.18	2.63	3.55
Total Debt/PBDIT	Times	4.85	3.99	4.47
Gross Current Assets (Days)	Days	101	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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Aug-2018	Channel Financing	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. Cr.)	Ratings/Outlook
Channel Financing	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.50	ACUITE BBB-/ Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/ Stable (Reaffirmed)
Channel Financing	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/ Stable (Reaffirmed)
Inventory Funding	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)

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About Acuité Ratings & Research:

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