Acuite RATINGS & RESEARCH

Press Release

Promoten

September 21, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** on the Rs.25.00 crore bank facilities of Promoten. The outlook is **'Stable'**.

Established in 2017, Promoten is a partnership firm engaged in the distribution of TMT bars for Jindal Power and Steel Limited under the brand name 'Panther', only in Kerala. The commercial operations started in November, 2018. The day to day operations is managed by its partners, V Manojkumar Prabhu and Rajasree Prabhu. The firm has a warehousing facility in Kerala with a capacity of 6000 m.t. Its reputed clientele includes TATA Projects Limited, Uralungal Labor Contract Co-operative Society (ULCCS), EKK Infrastructure Limited, KEC International Limited, Chicago Construction International Private Limited, to name a few.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Promoten to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced Management**
  The firm is promoted by V Manojkumar Prabhu and Rajasree Prabhu, who have an experience of over two decades in the steel industry. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers.
  Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Significant improvement in scale of operations**
  The firm reported healthy revenue growth with operating income of Rs.84.91 crore (Provisional) in FY2020 as against operating income of Rs.28.25 crore in FY2019 and Rs.0.61 crore in FY2018. This is majorly because of the increase in demand for the TMT bars.
  Acuite believes that the scale of operations is expected to be muted in FY2021 due to COVID-19.

- **Moderate working capital operations**
  The firm has moderate working capital operations marked by Gross Current Assets (GCA) of 118 days (Provisional) in FY2020 as against 131 days in FY2019. The inventory and debtor levels stood at 78 and 32 days (Provisional) in FY2020 as against 101 and 24 days in FY2019, respectively. As a result, the bank limits are 60 utilised for the last six months ending June, 2020.
  Acuité believes that working capital operations will remain moderate due to the trading nature of the business.

Weaknesses

- **Modest profitability**
  Operating margins of the firm deteriorated to 3.94 per cent (Provisional) in FY2020 from 5.16 per cent in FY2019. Further, Profit after Tax (PAT) also deteriorated to 1.93 per cent (Provisional) in FY2020 from 4.54 per cent in FY2019. The firm commenced with trading operations from November, 2018 and after the full year of trading operations in FY2020, margins have deteriorated due to trading nature of the business.

Acuite believes that the margins might get affected due to COVID-19 as prices have already deteriorated to around Rs.51000 per m.t. in FY2021 as against Rs.55000 per m.t.

- **Average financial risk profile**
  The financial risk profile is average marked by modest net worth and moderate debt protection measures and high gearing. The net worth of the firm is modest at Rs.8.61 crore (Provisional) as on 31 March, 2020 as against Rs.8.35 crore as on 31 March, 2019. The gearing of the firm stood high at 2.67 times (Provisional) as on March 31, 2020 as against 1.79 times as on March 31, 2019. Total debt of Rs.23.02 crore consists of the working capital facility of Rs.23.02 crore as on 31 March, 2020 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.97 times (Provisional) as on 31 March, 2020 as against 2.24 times as on 31 March, 2019. Interest Coverage Ratio (ICR) stood at 2.46 times (Provisional) in FY2020 as against 10.26 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times (Provisional) as on 31 March, 2020 and as on 31 March, 2019. Debt Service Coverage Ratio (DSCR) stood at 2.46 times (Provisional) in FY2020 as against 10.26 times in FY2019.

- **Intense competition and inherent cyclical nature of steel industry**
  Firm is exposed to intense competition in the steel industry due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, firm's business risk profile is exposed to the inherent cyclicality in these sectors.

Liquidity Position: Adequate
Promoten has an adequate liquidity, marked by adequate net cash accruals for its maturing debt obligations. The firm generated cash accruals of Rs. 1.97 crore (Provisional) in FY2020 and Rs. 1.32 crore in FY2019. Its maturing debt obligation in FY2020 was nil. The firm’s working capital operations are moderate as marked by Gross Current Asset (GCA) of 118 days (Provisional) in FY2020. Further, the reliance on working capital borrowing is moderate; the cash credit limit in the company remains utilized around 60 per cent during the last 6 months period June, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.09 crore (Provisional) as on 31 March 2020. The current ratio of the firm stood at 1.21 times (Provisional) as on 31 March 2020.
Acuité believes that the liquidity position of the firm will remain adequate in the near term at the back of adequate net cash accruals and absence of any debt-funded capex or long term borrowing.

Outlook: Stable
Acuité believes that the firm will maintain ‘Stable’ outlook over the medium term from the industry experience of its partners. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in the firm's operating income or profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

Rating Sensitivities
- Significant improvement in scale of operations along with profitability margins.
- Significant deterioration in financial risk profile and working capital operations of the firm.

Material Covenants
None

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Crore	84.91	28.25
Profit after tax (PAT)	Rs. Crore	1.64	1.28
PAT margin	%	1.93	4.54
Total debt / Tangible Net worth	Times	2.67	1.79
PBDIT / Interest	Times	2.46	10.26

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

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
None.

***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 BB/Stable (Assigned)

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About Acuité Ratings & Research:
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