Press Release

Promoten

February 15, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BBB- | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE t riple B minus)** from **'ACUITE BB' (read as ACUITE double B)** on the Rs.25.00 Cr. bank facilities of Promoten. The outlook is **'Stable'**.

Rationale for upgrade of ratings

The rating was reviewed as ACUITE BB via rationale dated October 28, 2021. The rating revision was on account of information risk. However, the entity has now cooperated with Acuité in furnishing information required for the review process.

About Company

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

About the Group

Kerala based, Prabhu Group (PG) comprises of Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSCPL), Veeyem Distributors Private Limited (VDPL), and Promoten. PG is promoted by Prabhu Family since 1996. The group is the authorized distributor of steel products for TATA Steel Limited and JSW Steel Limited and Jindal Steel and Power Limited (JSPL) in multiple regions across Kerala.

Prabhu Steels

Kerala based, Prabhu Steels (PS) was established as a partnership firm in 1996. The entity is the 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.

Vitson Steel Corp Private Limited

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

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

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
Acuité has considered the consolidated view of business and financial risk profiles of Prabhu Steels (PS), Vitson Steel Corp Private Limited (VSCPL), Veeyem Distributors Private Limited (VDPL), and Promoten to arrive at the rating. The consolidation is in view of a common line of business, common management, and significant financial linkages between the entities. The group is herein referred to as Prabhu Group (PG).

Key Rating Drivers

Strengths
Established t rack record of operations supported by experienced promoters and management
PG is led by Mr. Manoj Prabhu, Mr. Ramesh Prabhu, and Mrs. Rajasree Prabhu who have experience of over two decades in the steel industry helping them build long-standing and established relationships with its customer and supplier base across Kerala.
PG entities are exclusive distributors of TMT bars Tubes, Sheets, Doors, and Windows for TATA Steel Limited, and TMT bars for JSW Steel Limited & JSPL across different regions in Kerala. 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, whereas Promoten is an authorized distributor of TMT bars for JSPL in Kerala. Thus, the group is able to cater to wider customer requirements across Kerala.
Acuité believes that PG will sustain its existing business profile on the back of an established track record of operations and experienced management.

Moderate financial risk profile
PG has a moderate financial risk profile marked by healthy net worth, moderate gearing, and coverage indicators. The tangible net worth improved to Rs.96.88 crore as on March 31, 2021, as against Rs.88.70 crore as on March 31, 2020. Debt levels increased in FY2021 on the back of covid assistance loans and vehicle loans availed by PG. Debt profile majorly comprises of working capital limits availed by PG. Gearing (Debt to Equity) has albeit improved marginally to 1.51 times as on March 31, 2021, as against 1.61 times as on 31 March 2020 supported by accretion of profits to reserves.
Coverage indicators have strengthened on a Y-O-Y basis marked by Interest Coverage Ratio (ICR) of 2.21 times for FY2021 as against 1.73 times for FY2020. The debt to EBITDA levels continued to remain high at 5.59 times for FY2021 as against 5.43 times for FY2020 mainly due to lower margins on account of the trading nature of business.
Acuité believes the financial risk profile is expected to remain stable in the near to medium term in the absence of any major debt-funded capex.

Moderate Working capital requirements
PG has moderately managed working capital requirements marked by Gross Current Assets (GCA) of 123 days for FY2021 as against 108 days for FY2020. PG's main requirement of working capital is towards its Inventory and Debtors. Through each group entity purchases from its respective principal's, the credit period is less in trading and distribution and has ranged from 10-15 days in the past.
PG liquidates the inventory within 45 days and credit offered to its customers ranges from 60-

75 days. The total operating cycle is around 75 Days. The debtors' collection period stood at 48 days for FY2021 as against 46 days for FY2020 while the inventory holding period stood at 43 days for FY2021 as against 42 days for FY2020. However, the average bank limit utilization stood at ~70 percent for 6-month ended December 2021.

Weaknesses

Uneven profitability trend

PG reported moderation in the operating performance in FY2021 and FY2020 due to the impact of the covid-19 pandemic. The operating income stood at Rs.642.10 Cr. in FY2021 as against Rs.711.31 Cr. in FY2020 and Rs.756.42 Cr. in FY2019. Revenue till December (YTD – FY2022) stood at ~Rs.552.60 Cr.
The profitability indicators have witnessed fluctuation during the FY2019-21 period marked by an Operating (EBITDA) margin of 4.05 percent for FY2021 as against 3.69 percent for FY2020 and 3.91 percent for FY2019, PAT margins follow a similar trend marked by 1.22 percent in FY2021 as against 0.88 percent in FY2020 and 1.31 percent in FY2019.

Susceptibility to cyclicality nature of the industry and competitive nature of the industry

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

- Significant improvement in its scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material Covenants

None

Liquidity Position: Adequate

PG has an adequate liquidity position marked by adequate net cash accruals vis-a-vis its maturing debt obligations. The group generated net cash accruals of Rs.10.36 crore for FY2021, while its maturing debt obligations stood at ~Rs.1.61 crore for the same period. The cash accruals of the group are expected to be in the range of ~Rs.10.00-16.00 crore during the FY2022-24 period against maturing debt obligations in the range of ~Rs.3.00 crore during the same period.
PG has moderately managed working capital operations marked by GCA days of 123 days for FY2021. Further, PG maintains cash and bank balances of Rs.27.67 crore as on March 31, 2021. The current ratio stood at 1.41 times as on March 31, 2021, while the average bank limit utilization stood at ~70 percent for the 6-month period ended December 2021.

Outlook: Stable

Acuité believes that PG will maintain a 'Stable' outlook over the near to 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 the working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	642.10	711.31
PAT	Rs. Cr.	7.86	6.25
PAT Margin	(%)	1.22	0.88
Total Debt/Tangible Net Worth	Times	1.51	1.61
PBDIT/Interest	Times	2.21	1.73

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any Other Information
None

Applicable Criteria
• Application Of 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
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

Note on Complexity Levels of the Rated Instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Oct 2021	Cash Credit	Long Term	25.00	ACUITE BB (Issuer not co-operating*)
21 Sep 2020	Cash Credit	Long Term	25.00	ACUITE BB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- | Stable | Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Aditya Sahu Analyst-Rating Operations Tel: 022-49294065 aditya.sahu@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.