

Press Release

The Indian Mineral Company

September 09, 2021

Rating Assigned



| | |
|---------------------------------|---|
| Total Instruments Rated* | Rs. 111.50 Cr. |
| Long Term Rating | ACUITE BBB/ Outlook: Stable (Assigned) |
| Short Term Rating | ACUITE A3+ (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A Three Plus**) to the Rs. 111.50 Cr bank facilities of The Indian Mineral Company (TIMC). The outlook is '**Stable**'.

The rating assigned reflects the experience of the promoters in Steel Wholesale trading and strong product portfolio, stable revenue and operating profile of the firm, moderate financial risk profile and adequate liquidity. These rating strengths are partially offset by limited scalability and geographical concentration of operations.

About the Firm

TIMC is a partnership firm based out of Hubli, Karnataka. The firm is promoted Mr. Bimal Mehta and Mrs. Neepa Mehta and was incorporated in 1965. The Firm is wholesale distributor for various products Tata Steel, JSW Steel for Karnataka and dealers for Essar Steel and Ambuja Cement. The firm also cuts and bends the products as per requirements of its customers.

Analytical Approach

Acuite has considered the standalone business and financial risk of TIMC to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management and Strong Product Portfolio

TIMC is a partnership firm based out of Hubli, Karnataka. The firm is promoted Mr. Bimal Mehta and Mrs. Neepa Mehta and was incorporated in 1965. The promoters have more than 2 decades' experience in wholesale trading of steel and other related products. The Firm is wholesale distributor for various products Tata Steel, JSW Steel for Karnataka and dealers for Essar Steel and Ambuja Cement. The firm sells TMT Bars, MS rounds, MS Sheets, MS plates, HT grade plates, boiler quality plates, normalized plates, EN series plates, MS beams, MS channels, MS angles, MS flats, MS Square, MS & GI square rectangular and round tubes, GP Coils, BGL Coils & Colour coated coils manufactured by Tata Steel, JSW Steel and other major manufacturers. The sales territory is demarcated by the manufacturers with firm catering to whole of Karnataka for Tata Structural, Wiron and for Karnataka excluding Bangalore for Tata Tiscon. Acuite believes, having a strong supplier base with strong brands and limited competition will help firm in maintaining its business in medium term.

• Stable Revenue and operating margins

The firm caters to around 400 dealers in Karnataka and as such has been able to maintain a stable revenue profile in the range of Rs 325.35 Cr to Rs 335.44 Cr over past 3 years ended FY21 (Prov). Further being a wholesale trading entity, the firm has been able to maintain a stable operating margin in the range of 2.98 per cent to 3.67 percent over the past 3 years ended FY21 (Prov) and net profit margins in the range of 1.46 per cent to 2.59 per cent over the same period. Considering the nature of operations, Acuite believes, the firm will be able to maintain its profitability margins over medium term.

- **Efficiently managed working capital cycle**

The firm maintains its working capital efficiently and the average of peak utilizations over past 6 months ended June 2021 was 30 per cent. The adequacy of the liquidity position can be further observed from the gross current assets days in the range of 44 to 63 days over past 3 years ended FY21 (Prov). Acuite believes, considering the business profile and operational metrics, the firm will be able to maintain its working capital cycle.

- **Moderate Financial Profile**

The financial risk profile of the firm is moderate as observed from modest and improving net worth, moderate capital structure and strong coverage indicators. The net worth of the firm improved from Rs 32.46 Cr in FY20 to Rs 44.67 Cr in FY21 (Prov). Further, the capital structure has improved over past 3 years with the adjusted gearing improving from 1.64 times in FY19 to 0.80 times in FY21 (Prov) and the total liabilities to net worth improved from 1.44 times to 0.39 times over the same period. The reason for the lower liabilities to net worth is primarily due to upfront payment the firm has to make to procure the raw materials. The coverage indicators were strong as observed from DSCR and interest coverage, both in the range of 2.43 times to 4.99 times over past 3 years ended FY21 (Prov). Acuite believes, considering the asset light nature of business and absence of any debt funded capex in medium term, the firm will maintain its capital structure.

Weaknesses

- **Limited scalability**

The firm's growth is limited with the manufacturers demarcating the territories and firm cannot sell its products outside the territory. This limits the ability of the firm to grow and the only opportunity grow is limited to adding more dealers in the same region demarcated to the firm. Acuite believes, the demarcated territories limit the firm from drastically improving scale of operations.

- **Geographic concentration of projects**

The operations of the firm are limited to Karnataka which is responsible almost all of the revenue and this leaves the firm with exposure to significant geographical and political risk.

Liquidity Position: Adequate

The liquidity position of the firm is adequate as observed from net cash accruals in the range of Rs 5.90 Cr to Rs 9.65 Cr with no loan repayments tied to the same over past 3 years ended FY21 (Prov). Further, the average of peak monthly utilization of the cash credit facility is 30 per cent for the past 6 months ended June 2021. The adequacy of the liquidity position can be further observed from the gross current assets days in the range of 66 to 78 days over past 3 years ended FY21 (Prov). Acuite believes, in absence of any major planned capex in near future and demarcated allocation of sales territories and stable creditor and debtor policies mean, the firm will be able to maintain its liquidity position over medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins.
- Deterioration in working capital cycle and any unplanned significant capex to deterioration of financial risk profile and liquidity.

Outlook: Stable

Acuite believes that TIMC will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's extensive industry experience, Strong product profile, and strong dealership network. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations and profitability while maintaining comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in the working capital cycle or higher than expected debt-funded capital expenditure.

About the Rated Entity - Key Financials

| | Unit | FY21 (Provisional) | FY20 (Actual) |
|-------------------------------|------------|--------------------|---------------|
| Operating Income | Rs. Cr. | 328.70 | 325.35 |
| PAT | Rs. Cr. | 8.50 | 5.02 |
| PAT Margin | (percent) | 2.59 | 1.54 |
| Total Debt/Tangible Net Worth | Times | 0.96 | 1.32 |
| PBDIT/Interest | Times | 4.99 | 2.43 |

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

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 (Up to last three years)

Not Applicable

*Annexure – Details of instruments rated

| Lender Name | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-------------|------------------------|------------------|----------------|----------------|-----------------------------|------------------------------|
| HDFC Bank | Cash Credit | Not Applicable | 7.50% | Not Applicable | 65.00 | ACUITE BBB/Stable (Assigned) |
| HDFC Bank | WCDL | Not Applicable | 7.50% | Not Applicable | 10.00 | ACUITE BBB/Stable (Assigned) |
| HDFC Bank | DRUL | Not Applicable | 7.50% | Not Applicable | 20.00 | ACUITE BBB/Stable (Assigned) |
| HDFC Bank | WCTL | 20 Jan 2021 | 7.50% | 20 Jan 2025 | 9.50 | ACUITE BBB/Stable (Assigned) |
| HDFC Bank | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A3+ (Assigned) |
| HDFC Bank | PSR | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3+ (Assigned) |

Contacts

| Analytical | Rating Desk |
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| Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Hariprasad J Senior Analyst - Rating Operations Tel: 022-49294046 Hariprasad.j@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

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