

Press Release

Standard Retail Private Limited

September 29, 2021

Ratings Assigned



Total Bank Facilities Rated*	Rs.50.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.50.00 crore bank facilities of Standard Retail Private Limited (SRPL). The outlook is '**Stable**'.

The ratings reflect extensive experience of the promoters, its diversified product albeit concentrated customer profile, moderate capital structure & debt protection indicators. These rating strengths are partly offset by deteriorating business drivers, low profitability on account of susceptibility to steel prices coupled with increasing working capital intensity particularly its receivables.

About the Company

Incorporated in May 2010 by Mr. Nikunj Turakhia, SRPL is engaged in trading of various types of mild steel products viz. colour-coated coils, pre-painted galvanized iron (PPGI), hot-rolled coils, cold-rolled coils, galvanized steel, and various other types of products viz. billets, slabs, plates, sheets, electrolytic tin plates, electrolytic tin sheets, wire rod coils, electro-galvanized coils & plates, etc. SRPL is the flagship company of the Standard Group (SG) which has diversified interests across various sectors viz. steel, real estate, lighting, solar, steel servicing & aluminium, etc. The products dealt with by SRPL are sold to various steel processors & millers and wholesalers in the domestic market. On the other hand, the products are procured from various manufacturers majorly from the domestic market, whereas the balance are imported from various countries [imports comprised 29.67% of the total purchases in FY21 (Prov.) as against 17.77% in FY20. The warehouse facility of the company is located at Taloja MIDC in Raigad, Maharashtra.

Analytical Approach

Acuite has considered the standalone business & financial risk profiles of SRPL to arrive at the ratings.

Key Rating Drivers

Strengths

- Long track record of group operations coupled with highly experienced promoters**

SRPL is the flagship company of SG which was founded in 1987 by Mr. Nikunj Turakhia, having diversified interests across sectors viz. steel, real estate, lighting, solar, steel servicing & aluminum, etc. The overall operations of SG are looked after by the founder promoter – Mr. Nikunj Turakhia has diversified the Group into various products & services. Mr. Turakhia founded Standard Conduits Private Limited in 1987 which was a steel conduit manufacturing unit. The Group has sequentially increased its foothold through various companies housed under its name, viz. Turakhia Infrastructure Private Limited in the year 2002, Standard Realtors Private Limited in the year 2004, Turakhia Steels Private Limited in the year 2006, Standard Galva Steels Private Limited in the year 2008, and SRPL in the year 2010. Mr. Nikunj Turakhia is assisted by his son - Mr. Parth Turakhia who has been recently inducted into the business operations. Mr. Nikunj Turakhia possesses a total experience of more than three decades in the steel industry, which has been able to contribute to the Group's long-running operations over the years. Acuite believes that the company shall continue to derive benefits from the long-standing track record & promoters' experience.

- **Established relationships with clientele coupled with diversified product profile**

The products traded by SRPL are sold to various steel processors & millers and wholesalers in the domestic market. Over the years, the company has developed long-term relationships with its customers. However, the customer profile of the company is concentrated with the top 5 customers comprising 40-42% of the net sales in FY21 (Prov.) as against 20-23% in FY20. However, the product profile of the company is diversified with various mild steel products being offered, viz. colour-coated coils, pre-painted galvanized iron (PPGI), hot-rolled coils, cold-rolled coils, galvanized steel, and various other types of products viz. billets, slabs, plates, sheets, electrolytic tin plates, electrolytic tin sheets, wire rod coils, electro-galvanized coils & plates, etc. Acuite believes that SRPL's established relations with its customers is likely to remain value accretive to its business risk profile over the medium term.

- **Moderate capital structure & moderate debt coverage indicators**

SRPL's financial risk profile is marked by healthy net worth, moderate gearing levels and above average debt protection indicators. The tangible net-worth base of SRPL stood healthy at Rs.122.11 crore as on March 31, 2021 (Prov.) as against Rs.92.06 crore as on March 31, 2020. The capital structure stood comfortable with an overall gearing of 0.90 times as on March 31, 2021 (Prov.) as against 2.42 times as on March 31, 2020, whereas the same improved in FY21 (Prov.) over FY20 owing to reduction in the working capital bank borrowings coupled with increase in the tangible net-worth base on the back of infusion of quasi equity and accretion to reserves. On the other hand, given the low profitability, the debt coverage indicators stood above average with the interest coverage and DSCR at 1.42 times and 1.30 times respectively in FY21 (Prov.) as against 1.18 times and 1.15 times respectively in FY20.

ACUITE believes that the capital structure would continue to remain comfortable, whereas the debt coverage indicators would continue to remain above average.

Weaknesses

- **Continuously declining scale of operations**

The operating income of SRPL has been continuously declining from Rs.1403.62 crore in FY19 to Rs.970.23 crore and Rs.468.71 crore in FY20 and FY21 (Prov.) respectively owing to various factors viz. slowdown in the steel industry in FY20, impact of COVID-19 pandemic situation, higher focus on value-added products, and the company's strategy to consciously deal with its revenues by curtailing its dealings with those customers asking for a higher credit period, or those with a weak credit profile. However, the net sales increased from Rs.114.28 crore in April – July 2020 to Rs.229 crore in April – August 2021 (till August 7, 2021) owing to the revival in the operations in FY22 after the COVID-19 pandemic situation in FY21 (Prov.).

Acuite believes that the growth in scale of operations remains critical to the sustenance of the financial risk profile.

- **Low profit margins coupled with susceptibility of revenue & profitability to volatile steel prices**

The EBITDA margin of SRPL stood low at 3.54% in FY21 (Prov.) as against 2.24% in FY20, given the trading nature of operations. However, it improved marginally from 2.24% in FY20 to 3.54% in FY21 (Prov.) owing to increase in realizations on the back of increased focus on value-added products on account of various process improvisations undertaken by the company. Given the low EBITA margin, the PAT margin also stood low at 0.67% in FY21 (Prov.) as against 0.26% in FY20. Moreover, the profit margins and profitability of the company are susceptible to volatility in steel prices, since the industry is cyclical in nature with prospects directly linked to the end-user industries viz. construction, real estate, automobiles, other industrial purposes, etc. This is evident from the fluctuating revenues & profitability over the years.

Acuite believes that the profit margins of the company is likely to remain low, given the trading nature of operations.

- **Working capital intensive nature of operations coupled with stretched debtors position**

The operations of SRPL are working capital intensive in nature with high GCA days of 153 days in FY21 (Prov.) as against 96 days in FY20, since the majority of funds of over 50-85 days are blocked in debtors and a moderate portion of over 30-45 days in inventory. The debtors' period elongated significantly from 46 days in FY20 to 85 days in FY21 (Prov.) owing to slower realization of receivables, wherein out of the total debtors worth Rs.104.70 crore outstanding as on March 31, 2021 (Prov.), Rs.28.85 crore (comprising 27.56% of the total debtors) is outstanding for a period exceeding 365 days. Given all of the above, the WC cycle stood elongated at 121 days in FY21 as against 76 days in FY20, whereas the

same elongated in FY21 over FY20 owing to the elongation in the debtors' period. Acuite believes that the working capital cycle shall continue to remain elongated, until the company recovers any substantial amount of stuck-up debtors.

- **Presence in highly competitive, fragmented & cyclical steel trading industry**

SRPL is present in a highly competitive, fragmented & cyclical steel trading industry with a number of small-sized & medium-sized players engaged in trading of various steel products. This is evidently reflected in the low profit margins and elongated collection period. Moreover, the prospects of the steel industry are highly linked to the economic cycles as well as the end-user industries viz. construction, real estate, roads, railways, etc. Hence, any slowdown in the aforementioned industries as well as in the economy as a whole may have a direct bearing on the revenues of the company, which is evidently reflected in the fluctuating scale of operations of the company in the last few years.

Liquidity Position: Adequate

The liquidity profile of SRPL stood adequate marked by low dependence on fund-based working capital bank borrowings with unutilized limits, healthy liquid investments, and moderate current ratio. The operations of the company are working capital intensive in nature with the WC cycle of 121 days in FY21 (Prov.) as against 76 days in FY20, whereas the GCA days also stood high at 153 days in FY21 (Prov.) as against 96 days in FY20. Given all of the above, the company's dependence on non-fund-based facilities in the form of LC is higher at Rs.98.01 crore as on March 31, 2021 (Prov.), which, however, stood at an average of 43% in the last 6 months ended June 2021. However, the CC limit worth Rs.16 crore is hardly utilized over the same period, thereby providing sufficient liquidity cushion. Moreover, the investment in FDs stood at Rs.26.02 crore as on March 31, 2021, out of which Rs.8-11 crore comprises free FDs. Furthermore, the net cash accruals stood moderate at Rs.3.98 crore as on March 31, 2021 (Prov.) as against Rs.3.51 crore as on March 31, 2020 vis-à-vis no debt repayment obligations in those years. On the other hand, the current ratio stood moderate at 2.01 times as on March 31, 2021 (Prov.) as against 1.34 times as on March 31, 2020.

Rating Sensitivities

- Slower than expected scale-up of operations
- Significant deterioration in the profit margins
- Significant deterioration in the liquidity position or the overall financial risk profile

Material Covenants

None

Outlook: Stable

Acuite believes that SRPL shall continue to benefit over the medium term from its management's extensive experience and established position in the trading of various mild steel products. The outlook may be revised to 'Positive' if there is a substantial and significant increase in the company's revenues along with improvement in the overall liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a further decline in the revenues, or significant deterioration in its capital structure or liquidity position.

About the Rated Company - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	468.71	970.23
Profit after Tax (PAT)	Rs. Cr.	3.14	2.57
PAT Margin	(%)	0.67	0.26
Total Debt/Tangible Net Worth	Times	0.90	2.42
PBDIT/Interest	Times	1.42	1.18

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

Not Applicable

Any other information

Not Applicable

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)

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
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Stable (Assigned)
Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research Limited:

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