

**Press Release**  
**Heena Steel LLP**

**March 10, 2023**

**Rating Assigned**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	84.00	ACUITE BB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	84.00	-	-

**Rating Rationale**

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.84.00 Cr. bank facilities of Heena Steel LLP (HS). The outlook is '**Stable**'.

**Rationale for rating assigned**

The rating assigned of HS takes into account improved revenue and its experienced management. However, the moderation in the firm's operating and profitability margin, high gearing, moderately working capital intensive operations, susceptibility to volatility in raw material prices, intense competition and inherent cyclical nature in the steel industry acts as a constraining factor for the rating. Ability of the firm to improve its operating and profitability margin in line with its improving scale of operations along with improving its financial risk profile and to maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

**About the Company**

HS is a partnership firm which got established in the year 2017 by Mr. Bharat J. Bhuta & Mr. Bhavin B. Bhuta and is engaged into the trading and distribution of iron and steel products. The firm is based out in Mumbai and is an authorized distributor of various grades of TMT bars of JSW Steel Ltd. by catering to top project customers in various segments in Mumbai as well as all over Maharashtra with original brand name JSW TMT Plus FE-500 D.

**Analytical Approach**

Acuite has considered the standalone view of the business and financial risk profile of HS to arrive at the rating.

**Key Rating Drivers**

**Strengths**

**Experienced management**

HS is engaged into the trading and distribution of iron and steel products since 2017. The firm is managed by the partners Mr. Bharat J. Bhuta and Mr. Bhavin B. Bhuta who possess nearly five decades and two decades of experience in the iron and steel trading industry. The partners are being supported by its team of experienced professionals in managing day to day operations of HS. The extensive experience of the partners has enabled HS to establish a healthy relationship with its customers and suppliers.

Acuité believes that HS will continue to benefit from its experienced management.

### **Increase in revenue albeit moderation in profitability**

HS reported revenues of Rs.414 Cr for FY2022 as against Rs.216 Cr in FY2021 which is a growth of ~92 percent and has achieved this improvement on account of increase in the quantity sold as well as increase in the prices of steel TMT bars and hot rolled coils sold during the year. The firm sold an overall quantity of 66,186 MT of steel TMT bars and hot rolled coils in FY2022 as against 44,705 MT in FY2021 with an average per unit price of Rs,73,964 per unit in FY2022 as against Rs.57,054 per unit in FY2021. The firm's revenue during FY2021 however got declined to Rs.216 Cr as against Rs.249 Cr in FY2020 on account of impact in the overall operations during 6M FY2021 due to covid induced lockdown restrictions. The firm is an authorised distributor of JSW Steel Ltd. from the past eight years and further it sells the products through its sales and marketing network in the entire Maharashtra and in some part of Gujarat. Around 90 percent of the firm's products are used in infrastructure and construction projects of the state government authorities and around 10 percent are used in the real estate projects of private players.

Despite of increase in the overall revenue, the operating margin of the company however got declined to 3.25 percent in FY2022 as against 4.55 percent in FY2021 on account of increase in the steel prices. Further, the net profit margin of the firm also got declined to 1.71 percent in FY2022 as against 3.83 percent in FY2021 due to an increase in the interest cost during the year.

For the current year as on 9M FY2023, the firm has achieved an overall revenue of Rs.750 Cr as against Rs.238 Cr of 9M FY2022 on account of continued increase in the steel prices and demand of TMT bars and hot rolled coils. Therefore, it is estimated that the growth in the net sales of the firm is sustainable over the medium term.

Acuité believes that the ability of HS to improve its operating and profitability margin in line with its improving scale of operations will remain key monitorable.

### **Weaknesses**

#### **Below average financial risk profile**

Financial risk profile of HS is below average marked by low networth, high gearing and average debt protection metrics. The firm's networth stood improved at Rs.22 Cr as on 31 March, 2022 as against Rs.19 Cr as on 31 March, 2021 on account of moderate accretion to reserves. It also includes the amount of Rs.3 Cr as quasi equity since the unsecured loans infused by the partners will remain subordinated to bank borrowings. However out of the total tangible networth, the partners capital has been withdrawn every year from FY2020 to FY2022 towards payment of advance taxes. The gearing (debt-equity) stood high at 2.87 times as on 31 March, 2022 as against 1.80 times as on 31 March, 2021 on account of subsequent increase in the short term bank borrowings to meet the working capital requirements. The gearing of the firm is however expected to improve and remain moderate over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.62.50 Cr as on 31 March, 2022 consists of short term bank borrowings of Rs.58.25 Cr and unsecured loans from related parties of Rs.4.25 Cr.

The interest coverage ratio and DSCR stood lower at 5.39 times and 3.87 times for FY2022 as against 6.38 times and 6.38 times for FY2021. The Net Cash Accruals to Total debt stood marginally lower at 0.11 times for FY2022 as against 0.25 times for FY2021. The Total outside liabilities to Tangible net worth stood high at 3.27 times for FY2022 as against 2.07 times for FY2021. The Debt to EBITDA ratio stood high at 4.63 times for FY2022 as against 3.42 times for FY2021.

Acuité believes that the ability of HS to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

### **Moderately working capital intensive operations**

The operations of HS are moderately working capital intensive marked by its Gross Current Assets (GCA) of 81 days for FY2022 which stood improved as against 92 days for FY2021. The inventory cycle of the firm stood at 67 days in FY2022 as against 64 days in FY2021 on account of increase in the procurement of adequate amount of steel TMT bars to meet the rising demand from the customers. On the other hand, the receivable days stood improved at 6 days in FY2022 as against 21 days in FY2021 on account of improved realisation from the debtors during the year as well as the creditor days stood lower at 4 days in FY2022 as against 5 days in FY2021. The average bank limit utilization for 6 months' period ended December 2022 stood at ~63 percent.

Acuité believes that the ability of HS to maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

### **Susceptibility of profitability margins to volatility in raw material prices**

HS will remain susceptible to seasonality in steel prices. The improvement in revenue in FY2022 is primarily driven by increase in steel prices in the wider market. Any volatility in the steel prices will adversely impact the firm's revenue and profitability. Any significant changes in raw material prices due to import pressure and over supply are likely to have an adverse impact on the firm's margins.

### **Cyclical and competitive nature of steel industry**

The steel long products industry is intensely competitive, with many organized and unorganized players especially in the secondary/steel re-rolling business, which is less capital intensive. HS operates in a highly competitive steel industry thereby putting pressure on pricing power. In addition, the industry is reeling under the pressure of cheaper imports. The performance is linked to the steel industry which is cyclical in nature as well as end user industries such as real estate, infrastructure and construction. However, this risk is mitigated as the infrastructure industry is booming and the demand is much on a higher side backed by government initiatives for the upcoming years.

### **Rating Sensitivities**

- Ability to improve operating and profitability margin in line with improving scale of operations
- Ability to improve financial risk profile
- Ability to maintain an efficient working capital cycle

### **Material covenants**

None

### **Liquidity position - Adequate**

HS has adequate liquidity position marked by sufficient net cash accruals (NCA) to its no maturing debt obligations. The company generated cash accruals in the range of Rs.5 Cr to Rs.7 Cr during FY2020 to FY2022 against no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.17 Cr to Rs.19 Cr for period FY2023-FY2024 against no repayment obligation for the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 81 days for FY2022 as against 92 days for FY2021 on account of high inventory cycle during the same period. The average bank limit utilization for 6 months' period ended December 2022 stood at ~63 percent. Current ratio stands at 1.38 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.2.79 Cr in FY2022.

Acuité believes that the liquidity of HS is likely to remain adequate over the medium term on account of sufficient cash accruals against its no maturing debt obligations.

### **Outlook: Stable**

Acuité believes that HS will maintain 'Stable' outlook over the medium term on account of its

experienced management. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	414.22	216.04
PAT	Rs. Cr.	7.09	8.27
PAT Margin	(%)	1.71	3.83
Total Debt/Tangible Net Worth	Times	2.87	1.80
PBDIT/Interest	Times	5.39	6.38

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

Not applicable

### Any other information

None

### Applicable Criteria

- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BB   Stable   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BB   Stable   Assigned
Yes Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BB   Stable   Assigned

ICICI Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB   Stable   Assigned
Axis Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BB   Stable   Assigned
Bank of Baroda	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BB   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nilesh.soni@acuite.in">nilesh.soni@acuite.in</a>	

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.