

## Press Release

### Somani Ispat Private Limited

March 30, 2023

### Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	102.00	ACUITE BBB+   Stable   Assigned	-
Bank Loan Ratings	58.00	-	ACUITE A2+   Assigned
Total Outstanding Quantum (Rs. Cr)	160.00	-	-

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE two plus**) on the Rs. 160.00 Cr bank facilities of Somani Ispat Private Limited (SIPL). The outlook is '**Stable**'.

### Rating Rationale

The ratings assigned to the bank facilities of SIPL derive strength from the long track record and extensive experience of the promoters in the steel trading industry, comprehensive product portfolio coupled with long standing position as leading distributor for SAIL in Vizag and Telangana. The assigned rating is driven by an improvement in the overall business risk profile of the company marked by increase in the operating income and steady profitability arising from improved realizations. Acuite notes that while steel prices have moderated from the all-time highs of April 2022 following the global uncertainty, the new distributorship arrangement for structural steel products of SAIL for five years in Andhra Pradesh and Telangana in the early part of current year would gradually reflect in SIPL's earnings in FY2023 and FY2024. Moreover, SIPL's scale of operations are expected to remain adequately supported by the ramp-up in its production capacity in the last quarter of the year, driven by the Government's thrust on infrastructure projects and pick-up in demand from the end-user industries such as real estate and construction. The low working capital intensity and prudent capital allocation policy and strong coverage indicators, supported by its low receivable and inventory holding periods further supports the rating.

The rating is, however, constrained by the company's margins being susceptible to the volatility in raw material prices along with the company's exposure to the inherent cyclicality in the steel industry. The rating is also constrained by the company's high supplier concentration risks, and inability to renew the distributorship with SAIL could adversely impact the business performance.

### About the Company

Incorporated in 1992 in Telangana, Somani Ispat Private Limited (SIPL) is involved in the trading of steel and iron products including sections, plates, angles, channels, beams, TMT bars, etc. Currently, the business is promoted by Mr. Ashok Kumar Somani and Mr. Sanjay Kumar Somani who have more than three decades of experience in steel trading business. SIPL owns five warehouses located in Kompally, Balanagar, Jeedimeda in Hyderabad and

two in Vizag (near to SAIL stockyard). The warehouses are in close proximity to railway tracks. The inward movement of the goods are through railways, while the outward movement is fully managed through trucks. The company's outward logistics is partly supported by its own fleet of 10 trucks. SIPL has authorised sole distributorship of products manufactured by SAIL in Telangana. SIPL is also the authorised dealer of Rastriya Ispat Nigam Limited (RINL), Jindal Steel & Power Plant (JSPL) and Tata Steel Limited, which ensures regular supply of traded steel.

### **Analytical Approach**

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

### **Key Rating Drivers**

#### **Strengths**

##### **Experienced management**

The business is promoted by Mr. Ashok Kumar Somani and Mr. Sanjay Kumar Somani who have more than three decades of experience in steel trading business. The promoters in the past have supported operations of the company by regularly infusing funds on need basis in the form of unsecured loans (Rs.39.71 Cr as on March 31, 2022, vis-à-vis. Rs.28.63 Cr as on March 31, 2021). The company's dealer network has grown substantially from 210 dealers in FY21 to more than 270 dealers in FY22 and 320 dealers in FY23. Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

##### **Significant improvement in scale of operation**

Supported by a strong rebound in steel demand post unlocking of the economy, SIPL witnessed an improvement in its scale of operations marked by its revenues of Rs. 1132.42 Cr in FY2022 as against Rs. 706.43 Cr in FY2021. Such buoyant realisations led to a robust growth in the company's operating income in FY2022. This in turn kept SIPL's EBITDA healthy at Rs. 46.89 crore in FY2022 vis-à-vis Rs. 25.10 crore in FY2021. The healthy operational performance continued in 11MFY2023 (prov) with the company achieving revenue of Rs. 1329.36 Cr mainly driven by both improvement in volume and realizations. The ratings consider the benefit of being the sole authorised dealers of TMT bars for Steel Authority of India (SAIL) in Telangana for a period of five years along with the distributorship of plates and structural steels, which provides revenue visibility. Moreover in Q1FY2023, SIPL has been able to get the sole distributorship for structural steel products of SAIL for five years in Andhra Pradesh. SIPL is also the authorised dealer of Rastriya Ispat Nigam Limited (RINL), Jindal Steel & Power Plant (JSPL) and Tata Steel Limited, which ensures regular supply of traded steel.

Acuité notes that the strategic location of its warehousing facilities in close proximity to railway connectivity and distribution hubs of SAIL/RINL has helped in developing a competitive advantage over its peers, emanating from timely sourcing of materials and optimisation of logistics costs. The operating margin improved to 4.14 per cent in FY2022 from 3.55 per cent in FY2021 on account of increased realizations. The PAT margin also increased marginally to 2.75 per cent in FY2022 from 2.34 per cent FY2021. However, Acuité believes the softening of realisations in recent months, in tandem with demand slowdown in the international market, is likely to result in a moderation in its profitability, going forward.

##### **Healthy financial risk profile**

The company's financial risk profile is marked by healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs. 129.93 Cr as on March 31, 2022 from Rs.98.76 Cr as on March 31, 2021, aided by sizeable accretion to reserves which kept the capital structure conservative, as reflected by a comfortable gearing of 0.64 times as on March 31, 2022. However, the promoters have infused funds into the company through interest-bearing unsecured loans with no fixed repayment

schedule to support the capex in the form of purchase of land for setting up another warehouse in Vizag near to SAIL's operations which will further help the company to optimize freight cost in the near term. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.87 times as on March 31, 2022. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 8.15 times and Debt Service Coverage Ratio at 6.33 times as on March 31, 2022. The surge in earnings in FY2022 supported by minimal debt and high accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) also stood healthy at 0.39 times as on March 31, 2022. Acuité believes that SIPL's financial profile has strengthened further in FY2022 and the same is likely to sustain going forward, supported by healthy internal accrual generation and in absence of any major debt funded capex plans.

## **Weaknesses**

### **High Supplier Concentration Risk**

SIPL is exposed to high supplier concentration risk since it sources around 60%-65% of its total purchases from SAIL. The company has the sole distributorship for SAIL's TMT bars, and distributorship of plates and structural steel in Telangana, along with structural steel in Andhra Pradesh.

### **Inherent cyclical nature of the steel industry**

The company's performance remains vulnerable to cyclical nature in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. The end-user segments such as real estate, civil construction and engineering also display cyclical nature. Further, operating margins are vulnerable to volatility in the input prices (iron ore and coal) as well as realisation from finished goods. The prices and supply of the main raw material, iron ore, directly impacts the realisations of finished goods. Any significant reduction in the demand and prices adversely impacting the operating margins and cash accruals of the company will remain a key monitorable.

## **Rating Sensitivities**

- Growth in the scale of operations while improving profitability margin
- Elongation of working capital cycle

## **Material covenants**

None

## **Liquidity Position: Adequate**

The company's liquidity position is adequate, supported by healthy retained cash flows and sufficient undrawn limits. The net cash accruals of Rs.31.17 Cr stood high as on March 31, 2022 as against no scheduled debt repayment obligation. The current ratio stood strong at 2.93 times as on March 31, 2022. Moreover, the fund based limit remains moderately utilised at ~47.50 per cent over the ten months ended January 2023. Also, the average utilization for the non-fund based facilities for the past ten months ending January 2023 was ~49.75 per cent, which reflects that there is sufficient head room available in the bank limits to support fresh business opportunities. The promoters in the past have supported operations of the company by regularly pumping in funds in the form of unsecured loans. Further, the working capital management of the company is efficient as reflected by Gross Current Assets (GCA) of 69 days as on March 31, 2022 as against 88 days as on March 31, 2021. Acuité believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals backed by improvement in earnings led by high demand.

## **Outlook: Stable**

Acuité believes that the outlook on the company will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business risk profile and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating

margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or any elongation in its working capital cycle.

#### Other Factors affecting Rating

None

#### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1132.42	706.43
PAT	Rs. Cr.	31.17	16.51
PAT Margin	(%)	2.75	2.34
Total Debt/Tangible Net Worth	Times	0.64	0.59
PBDIT/Interest	Times	8.15	6.66

#### 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 Entity: <https://www.acuite.in/view-rating-criteria-61.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
Karur Vysya Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	43.00	ACUITE A2+   Assigned
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	101.00	ACUITE BBB+   Stable   Assigned
Karur Vysya Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2+   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB+   Stable   Assigned

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### 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.

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