



**Press Release**  
**Somani Ispat Private Limited**  
**June 27, 2024**  
**Rating Reaffirmed**

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

**Rating Rationale**

Acuite has reaffirmed its long-term rating of '**ACUITE BBB+**' (read as **ACUITE t riple B plus**) and the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 160.00 Cr. bank facilities of Somani Ispat Private Limited (SIPL). The outlook is '**Stable**'.

**Rationale for rating reaffirmation**

The rating reaffirmation takes into account the experience of the management and long track record of operations in steel trading industry, improvement in scale of operations marked by stable growth in revenue to Rs.1577.51 Cr. in FY24(Prov) as against Rs.1473.82 Cr. in FY23 and Rs.1132.42 Cr. in FY22. Further, the rating also factors in moderate financial risk profile and efficient working capital operations of the company. However, the rating remains constrained due to vulnerability of profitability to volatility in steel prices and susceptibility to cyclicity and competitive nature of the industry.

**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.

### **Unsupported Rating**

Not Applicable

### **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 and long track record of operations

SIPL 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 is an authorised and sole distributor of SAIL in Telangana state and Vizag region and is also an authorised dealer for Rastriya Ispat Nigam Limited (RINL), Jindal Steel & Power Plant (JSPL) and Tata Steel Limited (TSL). Company's customers includes marquee clients such as Pennar industries, Ultratech cements and Dalmia cements to name a few. 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. The extensive experience of promoters has helped the company establish long-term relationships with its customers and suppliers for repeat orders. Acuite believes that PG may continue to benefit from its established track record of operations and longstanding relationships with its customers and suppliers.

#### Stable growth in scale of operations albeit decline in profitability

SIPL has witnessed stable growth in its scale of operations to Rs.1577.51 Cr. in FY24 (Prov) as against Rs.1473.82 Cr. in FY23 and Rs.1132.42 Cr. in FY22. The improvement in revenue is majorly supported by growth in volumes in products like plates, structural and TMT bars. However, company's operating profits margins have declined significantly to 2.03 percent in FY24(Prov) as against 2.65 percent in FY23 and 4.14 percent in FY22. Decline in operating margins is attributed to reduction in average selling price during the past three years. Acuite believes that SIPL's ability to maintain the stable growth in revenue while maintaining profitability will remain as key rating sensitivity.

#### Efficient working capital cycle

The working capital cycle is efficient marked by GCA of 70 days in FY24(prov) as against 70 days during FY23 and 69 days FY22 respectively. The inventory days declined slightly and stood at 35 days in FY24(Prov) as against 38 days in FY23 and 37 days in FY22. Further, the debtor days stood at 27 days in FY24 (prov) as against 22 days in FY23 and FY22. The creditor days of the company stood at 1 day in FY24 (Prov) as against 5 days for FY23 and 1 day for FY22. The creditor days are low as company procures products against advance payments.

Acuite believes that working capital operations of the company will continue to remain in similar range over medium term considering the nature of business.

### Weaknesses

#### Vulnerability of profitability owing to volatility in steel prices

The profitability margins of the company are susceptible to volatility in steel prices in domestic and international market as the firm procures 100 percent of its traded goods from domestic steel makers. Significant changes in prices of steel impact the margins of the company reflected by decline in operating margin to 2.03 percent in FY2024(Prov) from 2.65 percent in FY2023 and 4.14 percent in FY22. Acuite believes that profitability of the company will remain susceptible to volatility in steel prices in the near to medium term.

#### Susceptibility to cyclical nature of industry and competitive nature of industry

SIPL is engaged in trading business of steel products to the top steel manufacturers of the country. The steel consumption is majorly dependent upon the economic activities taking place in and around the country. The end user industry being infrastructure and real state, any significant slowdown in these industries will impact the demand of steel and will impact the revenues of the firm. Further, the firm competes with various players in the organized and

unorganized segments in the steel trading industry, thus limiting the pricing power.

### **Rating Sensitivities**

- Sustainable improvement in revenue while maintaining profitability margins
- Any significant elongation in working capital cycle impacting its liquidity

### **Liquidity Position**

#### **Adequate**

The liquidity position of the company remains adequate marked by healthy net cash accruals and moderate reliance on working capital limits. The company generated net cash accruals of Rs. 24.53 crore in FY 23 with no major repayment obligation. The cash accruals of the company are estimated around Rs16 Cr. to Rs18 Cr. during FY25 to FY26. The current ratio of the company stood at 3.37 times as on March 31<sup>st</sup> 2024 (Prov) and cash and bank balance stood at Rs. 0.34 crore as on March 31, 2024 (prov). The average fund-based working capital utilization stood at 35 percent for the past 06 months ending April, 2024. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual over the medium term against no major repayment obligations.

### **Outlook: Stable**

Acuité believes that SIPL will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's extensive industry experience, healthy scale of operations and moderate financial risk profile. 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 any significant 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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	1577.51	1473.82
PAT	Rs. Cr.	15.09	23.20
PAT Margin	(%)	0.96	1.57
Total Debt/Tangible Net Worth	Times	0.99	0.79
PBDIT/Interest	Times	3.12	4.71

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

Not Applicable

### Any other information

None

### Applicable Criteria

- 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>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Mar 2023	Cash Credit	Long Term	101.00	ACUITE BBB+   Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	1.00	ACUITE BBB+   Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	43.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Assigned)

## 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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	43.00	ACUITE A2+   Reaffirmed
Karur Vysya Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	101.00	ACUITE BBB+   Stable   Reaffirmed
Karur Vysya Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A2+   Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.00	ACUITE BBB+   Stable   Reaffirmed

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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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