

Press Release

Shree Shantinath Steel

June 20, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) on the Rs. 9.00 crore bank facilities of Shree Shantinath Steel. The outlook is '**Stable**'.

Shree Shantinath Steel (SSS) is a Madhya Pradesh-based proprietorship concern established in 1997 by Mr. Anil Kumar Chordia. The firm trades in iron and steel products.

Key Rating Drivers

Strengths

- **Experienced management**

SSS benefits from its long track record of operations of 20 years and extensive experience of its promoter, Mr. Anil Kumar Chordia in the steel industry. This has enabled the firm to maintain long term relations with cutomers and suppliers.

- **Moderate financial risk profile**

The moderate financial risk profile is marked by gearing of 1.93 times as on 31 March, 2017 (Provisional) as against 1.92 times as on 31 March, 2016. The networth stood low at Rs.4.17 crore as on 31 March, 2016. The interest coverage ratio stood comfortable at 1.75 times in FY2016-17 (Provisional) as against 2.06 times in FY2015-16.

- **Efficient working capital management**

The gross current asset days stood moderate at around 81 days mainly on account of comfortable debtors of 30 days and inventory holding of 50 days in FY2016-17 (Provisional). The average cash credit utilisation stood high at ~91 per cent during December 2016 to April 2017.

Weaknesses

- **Modest scale of operations**

The scale of operations is moderate despite the long track record of operations of the firm. Further, the revenues have remained stagnant. The firm registered revenue of Rs.56.95 crore in FY2015-16 as against Rs.56.12 crore in FY2014-15. As per provisional financials for FY2016-17, SSS registered revenue of Rs.56.69 crore.

- **Stable but thin profit margins**

The operating margin has remained stable during the period under study. However, the operating margin stood low at 2.63 per cent in FY2015-16 as against 2.36 per cent in FY2014-15. As per provisional financials for FY2016-17, the operating margin stood at 2.93 per cent on account of the trading nature of business.

- **Intense market competition, geographic concentration risk**

SSS operates in a highly fragmented and competitive industry with large number of organised and

unorganised players. With portfolio concentration in Madhya Pradesh at ~98 per cent, the firm remains exposed to geographical concentration risk.

• Proprietorship constitution

The proprietorship constitution of the firm makes it vulnerable to the risk of capital withdrawal.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that the outlook will remain stable owing to the promoters' extensive experience in the iron and steel industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while improving operating profit margins. Conversely, the outlook may be revised to 'Negative' in case of weakening of operating margins or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, SSS reported net profit of Rs. 0.78 crore on operating income of Rs. 56.95 crore compared to net profit of Rs.0.77 crore on operating income of Rs.56.12 crore in the previous year. The net worth stood at Rs. 4.17 crore as on 31 March, 2016 compared to Rs. 4.63 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BB / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Leena Gupta	

Analyst - Rating Operations	
-----------------------------	--

Tel: 022-67141172	
-------------------	--

leena.gupta@smera.in	
--	--

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA 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. SMERA ratings 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA ratings 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.smera.in) for the latest information on any instrument rated by SMERA.*