

H M Steels Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	28.36 (Reduced from 33.00)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	33.36 (Rs. Thirty-Three Crore and Thirty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of H M Steels Limited (HMSL) continues to remain constrained on account of low profitability margins, modest debt coverage parameters and stretched liquidity in FY21 (Audited, refers to the period from April 01 to March 31). The rating is further constrained on account of company's presence in a fragmented and competitive nature of industry and the susceptibility of margins to volatility in raw material prices, cyclical nature inherent in the steel industry and regulatory risks as well as its concentrated customer base. The rating however, derives strength from established track record of operations with experienced promoters, increase in scale of operations and comfortable overall solvency position.

Rating Sensitivities

Positive Factors

- Sustainable improvement in the scale of operations to ~Rs. 450 cr. in the medium term.
- Sustained improvement in PBILDT margins to ~5% in the medium term.

Negative Factors

- PBILDT margins falling below ~2% on sustained basis.
- Any major debt funded capex resulting in deterioration of capital structure to above 2x.

Detailed description of the key rating drivers

Key Rating Weaknesses

Low profitable margins and modest debt coverage

Despite an increase in profitability in absolute terms HMSL's profit margin improved marginally on back of higher sales realization with comparatively lower fixed cost but remained low marked by a PBILDT margin of 3.17% in FY21 compared to 2.69% in FY20. Resultantly with lower interest and depreciation cost PAT margin also improved but remained low at 1.27% in FY21 against 0.46% in FY20. With increase in profitability in absolute terms gross cash accruals also increased and remained moderate at Rs.6.41 crore in FY21.

HMSL's debt coverage indicators although improved with increase in profitability but remained modest marked by interest coverage at 2.42x in FY21 (P.Y.: 1.74x) and total debt to GCA ratio of 6.87 years as on March 31, 2021 compared to 10.38 years as on March 31, 2020.

Concentrated customer base

The company has a concentrated customer base with top-5 customers contributing ~46% of the total income in FY21 (PY: ~44%) with top customer (Jindal Supreme (India) Private Limited) contributing ~13% of the total operating income in FY21 (PY: Padmavati Steels Limited with 18%). The company caters to manufacturers and traders located in Himachal Pradesh, Haryana, Punjab, and Uttar Pradesh. Any change in the procurement policy of these customers may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans.

Cyclical nature inherent in the steel industry and regulatory risks

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. In the recent past, several steps have been taken by the Indian Government like imposing of MIP (minimum import prices) to protect domestic players from the onslaught of imports from China, Korea etc. These moves have led to reduced imports and have stabilized steel prices thereby improving realizations.

¹ Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications

Fragmented and competitive nature of industry and susceptibility of margins to volatility in raw material prices

The steel industry in which the company operates is highly fragmented and competitive. The trading of raw materials industry is highly fragmented and competitive with large number of players being unorganized. Hence, the players in the industry do not have any pricing power with any upward revision in the prices of the raw material not entirely passed onto its customers.

Key Rating Strengths

Experienced promoters along with long track record of operations

HMSL was incorporated on June 22, 1999. All the major business functions of HMSL are divided amongst its directors. Accordingly, marketing and operations function is handled by Mr. Pankaj Kumar Bansal and Mr. Ashok Kumar Singla while production function is handled by Mr. Surinder Kumar Jain and Mr. Megh Raj is the chairman of the company and looks after strategic decision making, finance function and overall operations of the company along with Mr. Manish Jain and Mr. Rajnish Bansal. All the directors are having an experience of more than two decades in the steel industry through their association with associate concerns of HMSL i.e. JB Rolling Mills Limited, Ambica Alloys. The directors are assisted by a team of professionals who are highly experienced in their respective domains.

Increase in scale of operations

Total operating income of HMSPL improved by 13% to Rs.342.63 crore as compared to Rs. 303.07 crore in FY20. This was on account of on account of increased demand from its customers coupled with better sales realization achieved by the company. Consequently, the company's profitability also improved marked by a PBILDT of Rs. 10.87 crore (P.Y.: Rs. 8.16 crore) and gross cash accruals (cash profit) of Rs. 6.41 crore. (P.Y.: Rs. 3.66 crore) Further, the company has achieved a turnover of Rs. 499.86 crore and net profitability of Rs. 4.10 crore for 11MFY22(Prov.).

Comfortable solvency position

The capital structure of the company has remained comfortable as marked by an overall gearing ratio of 1.00x as on March 31, 2021 compared to 0.95x as on March 31, 2020 owing to moderate networth base against low overall debt level.

Liquidity: Stretched

The liquidity profile of HMSL has remained stretched as reflected by high repayments to be met by low gross cash accruals. The company had free cash and bank balances of Rs. 0.18 crore, as on March 31, 2021, while its cash flow from operating activity remained low at Rs.0.23 crore in FY21. Further, the company had an unencumbered cash and bank balance of Rs. 2.01 crore at the end of February 2022. The average utilization of the working capital borrowings stood close to 87% for the past six months ended February 2022.

Analytical approach: Standalone

Applicable criteria:

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Short Term Instruments](#)

[CARE's methodology for Steel Sector](#)

About the Company

Incorporated in 1999, HMSL is a closely held public limited company promoted by Mr. Megh Raj who is the Chairman of the company. The company is engaged in the manufacturing of MS Billets, MS Flat, ERW Pipes with annual capacities of 96000 metric tonnes per annum (MTPA), 64000 MTPA, 64000 MTPA, respectively, as on March 31, 2019 at its sole manufacturing facility located at Kala-Amb, Sirmour, Himachal Pradesh. HMSL has associate concerns engaged in Iron & Steel Industry including JB Rolling Mills Limited and Ambica Alloys.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	11MFY22 (Prov.)
Total operating income	303.07	342.63	499.86
PBILDT	8.16	10.87	10.40
PAT	1.40	4.35	4.01
Overall gearing (times)	0.95	1.00	0.88
Interest coverage (times)	1.74	2.42	2.98

A: Audited, Prov.-Provisional

Status of non-cooperation with previous CRA: ACUTE continues to place its rating under non-cooperation due to non-submission of requisite information by the entity as per its press release dated June 14, 2021.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Complexity level of various instruments rated for this firm: Please refer Annexure-4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	April 2022	0.36	CARE BB-; Stable
Fund-based - LT-Cash Credit		-	-	-	26.00	CARE BB-; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	2.00	CARE BB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	0.36	CARE BB-; Stable	1)CARE BB-; Stable (22-Jun-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-21)	1)CARE BB-; Stable (18-Dec-19)	1)CARE B+; Stable (13-Mar-19)
2	Fund-based - LT-Cash Credit	LT	26.00	CARE BB-; Stable	1)CARE BB-; Stable (22-Jun-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-21)	1)CARE BB-; Stable (18-Dec-19)	1)CARE B+; Stable (13-Mar-19)
3	Non-fund-based - LT-Bank Guarantee	LT	2.00	CARE BB-; Stable	1)CARE BB-; Stable (22-Jun-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Mar-21)	1)CARE BB-; Stable (18-Dec-19)	1)CARE B+; Stable (13-Mar-19)
4	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A4	1)CARE A4 (22-Jun-21)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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