

SKM Steels Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	120.00 (Enhanced from 110.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	345.00 (Enhanced from 300.00)	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	470.00 (₹ Four Hundred Seventy Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of SKM Steels Limited (SKM) derive strength from the long track record and extensive experience of the promoters in the steel trading industry, having comprehensive product portfolio coupled with long standing position as leading distributor for Tata Steel products in western India, and well distributed sales and marketing network which serves around 4000 customers in diverse sectors like white goods, automobile, construction etc. The ratings also factor in the comfortable financial risk profile marked by growth in profitability.

However, the above strengths are tempered by SKM's thin profit margins largely owing to trading business, working capital intensive nature of operations and exposure to inherent cyclicity of the metals industry and prevailing intense competition in the steel trading business.

Rating sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Sustained improvement in scale of operations leading to higher profitability and gross cash accruals.
- Working capital cycle to be less than 80 days on sustained basis.
- Improvement in debt protection metrics with PBILDT interest coverage ratio above 5.0x and Total Debt/EBITDA below 2.00x on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in current ratio below 1.50 times.
- Overall gearing at more than 1.35 times.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and established track record in the steel trading Industry

The business is promoted by Mr Chirag Shah (Director) and Mr Amit Shah (Director) who have more than a decade experience in steel trading business. The promoters in the past have supported operations of the company by regularly maintaining funds on need basis in the form of unsecured loans (Rs.17.25 crore as on March 31, 2022, vis-à-vis. Rs.47.48 crore as on March 31, 2021). The management is assisted by a team of professionals having adequate experience in relevant fields.

Comprehensive product portfolio

SKM has a comprehensive product portfolio as it caters to various industries such as Automotive, consumer durables industry, white goods etc. and various other engineering components or original equipment (OE) manufacturers. During FY22 (April 01 to March 31), SKM derived around 22% of its overall revenues from sale of HR Coils/sheets, followed by TMT Bars contributing around 16%, G.P. coils/sheets contributing around 16%, CRCA coils/sheets contributing around 17%, and remaining from various other products. Thus, the company's revenue stream is well diversified and offers a wide array of products to its diversified client base.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Distributorship of Tata Steel Limited along with processing centers providing large market access

SKM is an authorized distributor of products manufactured by Tata Steel Limited (TSL) such as Tata Steelium (CR coils and sheets) and Tata Astrum (HR coils and sheets) for Maharashtra and Madhya Pradesh. The company has product wise distributorship of TSL viz Tata Steelium (CR coils and sheets) and Tata Astrum exclusively for Maharashtra and Madhya Pradesh, Galvanised products like sheets, coils etc for Western region i.e., Gujarat, Goa, Maharashtra and Madhya Pradesh and Tata Tiscon (TMT bars) for Mumbai, Madhya Pradesh and three districts of Maharashtra. The revenue from TSL accounts for more than 80% of steel supplies to the company. It has state-of-the-art processing centres located at Taloja (Maharashtra) and Indore (Madhya Pradesh), enabling SKM to cater to the specific requirements of customers and offer just-in-time delivery, thereby aiding the customers in maintaining optimum inventory levels.

Long standing relationship with its well established and diversified clientele base

With close to five decades of track record in the steel trading business, SKM has established a healthy and long-term relationship with the customers and suppliers in the industry ensuring repeat orders. The company has a client base of 4000+ customers, pertaining to automotive, white goods players, construction sector etc. Contribution to sales from top 10 customers stood at around 21.37% in FY22 indicating a well-diversified clientele base.

Stable performance driven by volume demand

Volume demand in FY22 saw 60% improvement, which was further aided by improved realisations. This resulted in sales climbing 83% YoY in FY22. While for H1FY23, the realisations have fallen from around Rs. 66,253/MT in FY22 to Rs. 59,747/MT in H1FY23. 71% of sales in FY22 are from carbon steel products, while 12% from stainless steel. Given the removal of export duty restriction, the demand is now anticipated to be stronger for H2FY23.

Comfortable financial risk profile characterised by comfortable gearing levels and debt coverage indicators

SKM's borrowings mainly comprise of term loans, bank borrowings and unsecured loans from the promoters. The company's financial risk profile is characterized by moderate overall gearing (calculated after including LCs and unsecured loans) which remains only marginally changed from 1.04x as on March 31, 2021 to 1.09x as on March 31, 2022. Term loan of Rs.25.77 crores has come in towards the purchase of residential unit in Indiabulls Blu (secured loan) during FY22. Despite this, the leverage position of the company remains at satisfactory levels with adequate buffer for interest servicing as indicated by interest coverage ratio of 5.02x in FY22.

Key rating weaknesses

Working capital intensive nature of operations

SKM's operations are working capital intensive as reflected in operating cycle of 68 days in FY22 and 112 days in FY21. This is mainly driven by the long receivable realization cycle (avg. receivables of 45 and 85 days in FY22 and FY21 respectively). The company provides higher credit period of 75-90 days to its industrial clients on account of high competition in steel trading business leading to higher working capital requirement. Besides, SKM procures steel largely from Tata Steel i.e. around 86% is on cash basis / under LCs. For this, the company avails the channel funding facility provided by Tata Steel from various banks. SKM has to keep inventory of around 30 to 40 days as its also into processing and provides just in time delivery to its clients. The company's average monthly fund based working capital utilization has remained moderate in the last 12 months ended Oct 2022 at around 60%.

Counterparty credit risks

SKM is exposed to counterparty credit risk on account of absence of any credit insurance against its receivable. It typically provides 60-90 days credit terms to the customers. Around 93% of the total debtors are less than 90 days as on March 31, 2022.

Debtor Ageing 31.03.2022	0-30 Days	30-60 Days	60-90 Days	90-120 Days	120-150 Days	150-180 Days	More than 180 days	Total
As on March 31, 2021	141.99	76.22	29.7	10.74	3.2	1.82	30.12	293.8
%	48%	26%	10%	4%	1%	1%	10%	100%
As on March 31, 2022	201.34	94.26	38	13.33	2.61	0.79	7.9	358.23
%	56%	26%	11%	4%	1%	0%	2%	100%

Profitability susceptible to fluctuations in commodity price

Metal trading business is cyclical in nature which is strongly correlated to economic cycles; hence earnings are susceptible to fluctuations in commodity prices. SKM being in metal trading business, faces risks of cyclicity in the industry. Prices of material procured from Tata Steel Limited are revised on a monthly basis. Most of the procurements are based on estimates and

expected demand and are generally not backed by orders. As such there is no minimum offtake / quantity commitment made to TSL by SKM. Therefore, SKM has to absorb any fluctuations in input prices that might occur from the time of material procurement to dispatch. Although the variation in steel prices may be passed on to the customer in the long-run, the company has to absorb the steel price volatility in the short-term as selling prices reflects volatility with a time-lag.

Fragmented and competitive nature of the Iron & Steel trading business

Steel trading business is characterised by highly competitive, fragmented and cyclical business which is strongly correlated to economic cycles; hence earning is low. Further, steel trading business has very low entry barriers and presence of unorganized players in the industry has led to intense competition. However, the company enjoys competitive advantage being authorised/exclusive distributor of Tata Steel products in respective regions.

Liquidity: Adequate

SKM's current ratio stood at a comfortable level of 1.67x, as on March 31, 2022 (PY: 1.99x). Unencumbered cash and bank balance stood at around Rs. 23 crore on Sep 30, 2022. Average utilization for both fund-based and non-fund based facilities for the past 12 months ending October 2022 was 65%, 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 maintaining funds in the form of unsecured loans.

Analytical approach

Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Wholesale Trading](#)

About the company

Incorporated in 1994, SKM Steels Ltd (SKM) was promoted by Mr. KM Shah earlier. Currently, the business is promoted by Mr Chirag Shah (Director) and Mr Amit Shah (Director) who have more than a decade experience in steel trading business. SKM has authorised distributorship of products manufactured by Tata Steel Ltd (TSL) such as Tata Steelium (CR coils and sheets) and Tata Astrum (HR coils and sheets) exclusively for Maharashtra and Madhya Pradesh, Galvanised products like sheets, coils etc for Western region i.e., Gujarat, Goa, Maharashtra and Madhya Pradesh and Tiscon (TMT bars) for Mumbai, Madhya Pradesh and three districts of Maharashtra. SKM has two service centres viz. located at Taloja (Maharashtra) and at Indore (Madhya Pradesh). SKM's products cater to the various industrial sectors like automobiles, white goods, construction and switch gears amongst others and also provides service like Just in time delivery to facilitate the customers.

Brief Financials (₹ crore)	FY2021 (A)	FY2022 (A)	H1FY2023 (UA)
Total operating income	1,371.16	2,511.33	1,422
PBILDT	87.18	136.66	69
PAT	36.98	84.06	n.a.
Overall gearing (times)	1.04	1.09	n.a.
Interest coverage (times)	4.08	5.02	4.69

A: Audited, UA: Unaudited, n.a.-not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Vendor financing		-	-	-	120.00	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	345.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE BBB+; Negative (09-Nov-20) 2)Withdrawn (09-Nov-20)	1)CARE BBB+; Negative (24-Mar-20)
2	Fund-based - LT-Vendor financing	LT	-	-	-	-	1)CARE BBB+; Negative (09-Nov-20) 2)Withdrawn (09-Nov-20)	1)CARE BBB+; Negative (24-Mar-20)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)CARE A2 (09-Nov-20) 2)Withdrawn (09-Nov-20)	1)CARE A2 (24-Mar-20)
4	Term Loan-Long Term	LT	-	-	-	-	1)CARE BBB+; Negative (09-Nov-20) 2)Withdrawn (09-Nov-20)	1)CARE BBB+; Negative (24-Mar-20)
5	Fund-based - LT/ ST-Cash Credit	LT/ST*	345.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (21-Feb-22)	-	-

						2)CARE A-; Stable / CARE A2+ (08-Feb-22)		
6	Fund-based - LT- Vendor financing	LT	120.00	CARE A- ; Stable	-	1)CARE A-; Stable (21-Feb-22)	-	-
7	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A2+	-	1)CARE A2+ (21-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Vendor financing	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	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 instruments: CARE Ratings 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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About us:

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