

Thane Steels Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	40.69 (Reduced from 44.00)	CARE BB; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	3.31	CARE BB; Positive / CARE A4	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	5.65	CARE BB; Positive / CARE A4	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Thane Steels Limited (TSL) continue to be constrained by the modest scale of operations, thin albeit improved PBILDT margin in FY24 (refers to period from April 1 to March 31), weak debt coverage indicators, stretched liquidity and its presence in a competitive, cyclical, and fragmented steel industry. The ratings also constrained due to profitability being susceptible to volatility in the prices of raw materials, and cyclical associated with the steel industry.

The ratings, however, derive strength from significant improvement in capital structure on account of subordinated unsecured loan considered as quasi equity during FY24 (refers to period from April 1 to March 31), experienced and resourceful promoters in the steel industry with established track record of operations, having strong linkage with dealer network with diversified customers and suppliers.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Substantial increase in scale of operations led by improved volumes thereby total operating income (TOI) exceeding Rs.350 crores along with sustenance of PBILDT margins over 3% on a sustained basis
- Improvement in the debt coverage indicators marked by interest coverage ratio exceeding 2x on a sustained basis
- Improvement in the average utilization of the working capital limits reaching below 80% on a sustained basis

Negative Factors

- Deterioration in the scale of operations with a total operating income below Rs.200 crore marked by substantial reduction in volumes on a sustained basis
- Deterioration of overall gearing over 2x on a sustain basis
- Deterioration in operating cycle or significant decline in profitability thereby impacting the credit risk profile or liquidity of the company

Analytical approach: Standalone

Outlook: Positive

The positive outlook reflects CARE Ratings Limited's (CARE) expectation of further significant growth in the scale of operations coupled with stable PBILDT margins resulting in higher cash accruals while maintaining its financial risk profile. The outlook may be revised to 'Stable' in case the company is unable to meet its envisaged sales and profitability, thereby leading to any deterioration of its financial risk profile.

Detailed description of the key rating drivers:

Key Rating weaknesses:

Modest scale of operations: Total operating income (TOI) of TSL decreased from Rs. 301.02 crore in FY23 to Rs. 258.40 crore in FY24, registering a y-o-y decline of 14.16%. During FY24, the company's production was slowed down during Q1 and Q2FY24 due to installation and upgradation of machineries for transitioning the plant from semi-automated to automated production lines. Thus, the same has led to reduction in plant utilisation capacity in FY24 to 39% for Re-rolling mills and 47% for Induction furnace (PY-45% and 60% respectively).

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

Further during Q1FY25 (from April to June' 2024) the company recorded sales of Rs. 84.47 crore. The company expects its TOI to increase significantly in FY25 on the back of regularization of the production lines along with improvement in the operating efficiencies post completion of the capex.

Thin profit margin in FY24; however, remain susceptible to price volatility risk: PBILDT margin of TSL improved by 106 bps from 2.32% in FY23 to 3.38% in FY24 (Prov.) mainly on account of improved sales realization. The realization of TSL has increased from Rs. 54,140 PMT in FY23 to Rs. 54,904 PMT in FY24. The said improvement was mainly on account of upgradation of plant resulted to reduction in wastage during production process. Further the PAT margin has improved marginally from 0.75% in FY23 to 0.84% in FY24 in line with improvement in the PBILDT margin. During 1QFY25, the PBILDT margin of the company stood at 3.11%. Going forward, CARE envisage the profit margin to sustain in the projected years due to offer said cost-saving measures implemented by company.

Weak debt coverage indicators: Improvement in cash accruals along with reduction in the total debt levels due to consideration of subordinated unsecured loans as quasi equity, the total debt/GCA improved to 10.55x in FY24 prov. (PY: 14.08x). Further, due to an increase in the absolute PBILDT to Rs.8.74 crore in FY24 (PY: Rs.6.99 crore), the interest coverage ratio has marginally improved to 1.74x (1.54x). Nevertheless, the debt coverage indicators continued to remain weak.

Working capital intensive nature of operations: The operations of TSL continued to remain working capital intensive in nature with most of the funds being utilized in inventory followed by debtors. The inventory days remained high at 82 days in FY24 (Prov.) (vis-à-vis 65 days in FY23) since the company has procured higher inventory of raw materials and maintained higher finished goods to meet the ongoing demand of customers. Collection period remained stable at 13 days in FY24 and having a credit period of 24 days from its suppliers, leading to increase in working capital cycle days from 58 days in FY23 to 72 days in FY24, thus leading almost fully utilization of the working capital limits.

Presence in competitive and cyclical industry: TSL is operating in a highly competitive and cyclical steel industry wherein large number of small & large players are involved in the manufacturing of various steel products, including TMT bars. This is evident from the thin profit margins garnered by the company. Moreover, the company is also exposed to cyclicity in the real estate/construction industry. Thus, the ability of the company to increase the scale of operations and profit margins amidst competitive & cyclical scenario would be critical from the credit perspective.

Key Strengths

Long track record of over two decades of operations in manufacturing & trading of steel products: TSL possesses a long track record of more than two decades of operations in manufacturing & trading of various steel products. Over the years of existence, the company has developed established relationships with its customers and suppliers.

Experienced promoters: The promoters - Mr. Hargopal Rajput, Mr. Mahesh Garg and Mr. Manish Garg possess an average experience of over three decades in manufacturing & trading of steel products. Moreover, the promoters have been continuously supporting the company through funding operations by way of unsecured loans.

Successful Completion of Capex planned during FY24: The company has completed its capex of Rs. 2.10 crore for modernization and implementation of plant and machinery during Q1 and Q2FY24. The successful completion of the project benefited the company in terms of saving in power cost and improvement in metal yield leading to improvement in the operating margins in the medium term.

Moderately leveraged capital structure: The capital structure of TSL has significantly improved marked by improvement in overall gearing and stood at 1.45x as on March 31, 2024 (PY- 3.21x). The improvement was on account of an increase in the tangible net-worth base due to consideration of subordinated unsecured loans to the tune of Rs. 10.67 crore as a quasi equity during FY24. Nevertheless, the capital structure remained moderately leveraged.

Diversified customer & supplier base: The TMT bars manufactured by TSL find varied applications in the real estate and construction sector, whereas the construction sector itself stands diversified with many segments within it. The company possesses a wide range of dealers & distributors of the said products. Furthermore, the customer profile of the company is well diversified with the top 5 customers comprising 24% of the net sales in FY24 which comprises a healthy mix of both old and new clients in their portfolio. Further TSL majorly procures billets from the domestic steel manufacturers. The supplier profile of the company is moderately diversified with the top 5 suppliers comprising 25% of the total purchases in FY24.

Liquidity: Stretched

The liquidity position remained stretched marked by almost fully utilized working capital limits during past 12 months ended July 2024. The Gross Cash Accruals (GCA) of the company expected to remain sufficient as against its debt repayment obligations of Rs. 3.07 crore in FY25 and 2.31 crore in FY26. The current ratio stood moderate at 1.27x as on March 31, 2024 (vis-à-vis 1.35x as on March 31, 2023) while the quick ratio stood weak at 0.29x as on March 31, 2024. (vis-à-vis 0.33x as on March 31, 2023) owing to higher inventory maintained by the company. The free cash & bank balance stood at Rs. 1.72 crore as on March 31, 2024. The cash flow from operating activities stood positive at Rs.5.20 crore in FY24 (vis-à-vis positive of Rs.7.16 crore in FY23).

Applicable criteria:

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Financial Ratios – Non financial Sector](#)

[Manufacturing Companies](#)

[Iron & Steel](#)

About the Company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Incorporated by the Rajput and the Garg families in August 1995, Thane Steels Private Limited (TSPL) is an ISO 9001 certified company, engaged in manufacturing of TMT (Thermo-mechanically Treated) steel bars. The manufacturing facility of the company is located at Palghar, Thane and is equipped with an installed capacity of 1,20,000 metric tonnes per annum (MTPA) of TMT bars (utilized at ~39% in FY24) 60,000 MTPA of MS billets (utilized at ~47% in FY24), whereas the said products cater to various real estate & construction players, either directly or indirectly through various traders.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov)	Q1FY25 (UA)
Total operating income	301.02	258.40	84.47
PBILDT	6.99	8.74	2.63
PAT	2.26	2.16	0.71
Overall gearing (times)	3.21	1.45	1.37
Interest coverage (times)	1.54	1.74	1.90

A: Audited; Prov: Provisional; UA: Unaudited; NA- Not available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: India Ratings, vide its press release dated September 12, 2023, has reviewed the credit ratings assigned to the bank facilities of TSL under non-cooperation category due to non-availability of requisite information.

Any Other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of rated instrument / facility: 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

Lender details: Annexure-5

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-Cash Credit		-	-	-	35.00	CARE BB; Positive
Fund-based - LT-Term Loan		-	-	Aug, 2029	1.19	CARE BB; Positive
Fund-based - LT-Working capital Term Loan		-	-	Oct 2026	4.50	CARE BB; Positive
Fund-based/Non-fund-based-LT/ST*		-	-	-	3.31	CARE BB; Positive / CARE A4
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	5.65	CARE BB; Positive / CARE A4

* Reclassified from Long Term Bank Facilities

Annexure-2: Rating History of 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	35.00	CARE BB; Positive	-	1)CARE BB; Stable (10-Aug-23)	1)CARE BB; Stable (02-Aug-22)	1)CARE BB-; Stable (03-Sep-21) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (05-Jul-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	5.65	CARE BB; Positive / CARE A4	-	1)CARE BB; Stable / CARE A4 (10-Aug-23)	1)CARE BB; Stable / CARE A4 (02-Aug-22)	1)CARE BB-; Stable / CARE A4 (03-Sep-21) 2)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (05-Jul-21)
3	Fund-based - LT-Term Loan	LT	1.19	CARE BB; Positive	-	1)CARE BB; Stable (10-Aug-23)	1)CARE BB; Stable (02-Aug-22)	1)CARE BB-; Stable (03-Sep-21) 2)CARE B+; Stable; ISSUER NOT COOPERATING* (05-Jul-21)

4	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	1)Withdrawn (02-Aug-22)	1)CARE BB-; Stable (03-Sep-21)
5	Fund-based - LT-Working capital Term Loan	LT	4.50	CARE BB; Positive	-	1)CARE BB; Stable (10-Aug-23)	1)CARE BB; Stable (02-Aug-22)	1)CARE BB-; Stable (03-Sep-21)
6	Fund-based/Non-fund-based-LT/ST^	LT/ST	3.31	CARE BB; Positive / CARE A4		-	-	-

*Issuer did not cooperate; based on best available information.

^Reclassified from Long Term Bank Facilities

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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 the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - LT/ ST-Bank Guarantee	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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About us:

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