

Sri Kanya Iron and Steel Private Limited

January 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	65.52 (Reduced from 72.00)	CARE BB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to bank facilities of Sri Kanya Iron and Steel Private Limited (Sri Kanya) factors in moderation in scale of operations, low profitability margins despite improvement, leveraged capital structure, low debt coverage metrics, and stretched liquidity. However, the rating derives comfort from presence of experienced and resourceful promoters, diversified customer base, comfortable operating cycle, and stable industry outlook. The rating is further influenced by the inherent risk of lower margins due to trading nature of business, cyclical steel industry and intense competition from the unorganised sector and susceptibility to price fluctuations of steel products.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations above ₹1,000 crore with operating margin of 1.70% on sustainable basis.
- Improvement in overall gearing below 2.50x.

Negative factors

- Increase in debt exposure leading to overall gearing above 3.50x.
- Delays in collection resulting a mismatch in cash flow and strain on liquidity.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the company will continue to benefit from its strong distribution network and support from the promoters as and when required.

Detailed description of key rating drivers:

Key weaknesses

Moderation in scale of operations

Income from operations moderated by ~3.5% to ₹539.42 crore in FY24 against ₹557.58 crore in FY23. Though there was no decline in the quantity sold, moderation in total operating income (TOI) was on account of decline in the price of steel in FY24. ~99% of the total revenue comes from trading iron and steel and balance 1% comes from trading cement. For 8MFY25, the company has reported TOI of ~₹263 crore and projecting ₹443 crore for FY2025 due to decrease in price and demand for steel on account of elections and change in government in Andhra Pradesh which slowed down the infrastructure projects in the state, which is expected to improve in FY2026.

Leveraged capital structure

As on March 31, 2024, the company's capital structure is leveraged, marked by overall gearing ratio of 3.38x (3.40x on March 31, 2023), Debt equity ratio of 0.84x (1.23x on March 31, 2023) and total outside liabilities to net worth of 5.36x (5.27x on March 31, 2023). Though tangible net worth improved to ₹21.08 crore on March 31, 2024 (₹17.50 crore on March 31, 2023), due to accretion of profits, total debt increased to ₹71.21 crore (₹59.56 crore on March 31, 2023) on account of utilisation of increased working capital limit. In FY24, debt coverage indicators continued to remain low, marked by profit before interest, lease rentals, depreciation, and taxation (PBILDT) interest coverage of 1.89x (PY: 1.97x), Total debt to gross cash accrual (TD/GCA) of 16.80x (PY: 16.82x) and TD/ PBILDT of 6.09x (PY: 6.29x). The moderation was on account of increased debt despite improvement in profitability.

Low profitability margins albeit improvement

Due to the trading nature of business, profitability margins continued to remain moderate, marked by PBILDT margin between 1.50% and 2.20% in the last four financial years ended FY24. Despite moderation in turnover, PBILDT margin improved to 2.17%

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

for FY24 against 1.70% for FY23 due to decrease in purchase cost of material. However, profit after tax (PAT) margin was 0.66% for FY24 (PY: 0.58%) on account of increase in finance costs due to utilisation of increased working capital limits.

Cyclical nature of the steel industry and intense competition from unorganised sector

Prospects of the steel industry are strongly co-related to economic cycles. Steel demand is sensitive to trends in particular industries such as automotive, construction, infrastructure, and consumer durables, which are key consumers of steel products. These key user industries depend on macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates among others in the economies in which they sell their products. When downturns occur in these economies or sectors, the steel industry may witness a decline in demand. The Indian steel industry is highly competitive due to low entry barriers for new players and is also characterised by a high degree of fragmentation due to the presence of a larger number of unorganised players.

Susceptibility to price fluctuation of steel products

Prices of steel products are volatile and are driven by the demand-supply scenario prevailing on a particular day and also by global prices. Adverse fluctuation in prices may affect the entity's profitability margins, which are on the lower side due to trading nature of operations. The entity tries to mitigate the price fluctuation risk by maintaining a back-to-back order arrangement where it places orders with its suppliers upon receipt of orders from its customers.

Key strengths

Experienced and resourceful promoters

Sri Kanya was converted from proprietorship firm 'Sri Kanya Corporation' which was established in 1994 by Srinivas Duddipudi who has over two decades of experience in the iron and steel industry. He looks after the overall business operations of the firm. Promoters are ably supported by a team of professionals who have significant experience in the related domain of business operations. The company has had a long track record of operations in the steel and cement trading business since 1994 and has established a strong market position in the industry with a strong distribution channel of ~300 dealers across Andhra Pradesh.

Diversified customers and concentrated suppliers

Sri Kanya has very diversified customer base with less than 20% of total revenue coming from top 10 customers. Thus, with ~300 dealers, the company is able to scale up its operation without depending on few customers. The company procures material from selected suppliers to ensure the quality of products has remained intact. Majority material is procured from RIN Limited followed by Shyam Metallics and Energy Limited, Maa Mahamaya Industries Limited, Vizag Profilers Private Limited and Elegant Metals & Minerals Private Limited. These five companies fulfil Sri Kanya's material requirement.

Comfortable operating cycle

The operating cycle remained comfortable at 36 days on March 31, 2024 (On March 31, 2023: 27 days), due to effective management of inventory. As on March 31, 2024, the average inventory period stood at 18 days and timely realisation of receipts with average collection period at 35 days and average creditors period at 17 days.

Liquidity: Stretched

The company's liquidity is stretched, marked by tightly matched GCAs against repayment of term debts. The company has already paid ~₹4.26 crore till December 2024 and only ~₹1.56 crore is pending, which will be paid in Q4FY2025. Per management discussion, the company has been paying ~₹50-60 lakhs towards directors' remuneration and ₹72 lakhs towards rent (payable to D Srinivas - managing director) every year, the payment of which can be deferred or waived off on need basis. Of ₹5.47 crore outstanding on March 31, 2024, as 'Advance for purchase of land' (owned by M/s Sri Kanya Corporation-Proprietorship concern of D Srinivas, which was converted to Sri Kanya Iron and Steel Private Limited in July 2019), ₹1 crore was received on December 11, 2024 and balance amount is expected to be returned by the end of Feb2025. The promoters infused ₹1.01 crore in FY24 and ₹0.37 crore in FY25 in the form of unsecured loans and would support the company in future whenever required. Since the company is operating in a working capital intensive business, the average working capital limit utilisation for the 12 months ended November 2024 remained high at 89.56%. On March 31, 2024, current ratio was 1.05x (1.09x on March 31, 2023), quick ratio was 0.78x (0.75x on March 31, 2023) and unencumbered cash and bank balance was ₹0.34 crore. There was no over-utilisation of working capital limits in the last 12 months ended November 30, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Cement
Iron & Steel
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

Sri Kanya was incorporated on July 26, 2019, having stockyard in Visakhapatnam. The company was converted from the proprietorship firm 'Sri Kanya Corporation', which was established in 1994. The company is managed by Duddipudi Srinivas, managing director, who has an experience of over two decades in steel business. Sri Kanya is engaged in wholesale trading of steel, iron and cement in Andhra Pradesh. The company has strong distribution channel with ~300 dealers across Andhra Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	8MFY25 (UA)
Total operating income	557.58	539.42	~263
PBILDT	9.47	11.69	NA
PAT	3.23	3.58	NA
Overall gearing (times)	3.40	3.38	NA
Interest coverage (times)	1.97	1.89	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:

Infomerics Ratings downgraded the long-term rating for bank facilities of Sri Kanya from "IVR BB+/ Stable" to "IVR BB/Negative/INC" and moved the rating to 'ISSUER NOT COOPERATING' category vide its Press Release dated February 20, 2024, due to non-submission of information and lack of management co-operation.

Brickwork Ratings downgraded the long-term rating for bank facilities of Sri Kanya from "BWR BB/ Stable/INC" to "BWR BB-/stable/INC" and continued the rating under 'ISSUER NOT COOPERATING' category vide its Press Release dated May 16, 2024, based on best available information, as the issuer did not cooperate.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	58.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	31-03-2028	7.52	CARE BB+; Stable

Annexure-2: Rating history for 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	58.00	CARE BB+; Stable	-	1)CARE BB+; Stable (12-Feb-24) 2)CARE BB+; Stable (15-Jan-24)	-	-
2	Fund-based - LT-Term Loan	LT	7.52	CARE BB+; Stable	-	1)CARE BB+; Stable (12-Feb-24) 2)CARE BB+; Stable (15-Jan-24)	-	-

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

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

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