SST Steel Corporation

January 07,2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	57.00 (Enhanced from 42.00)	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	33.00 (Enhanced from 28.00)	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of SST Steel Corporation (SSTSC) factors in limited track record of operations, profitability susceptible to volatility in steel prices, presence of the firm in highly fragmented and cyclical steel trading industry and inherent risk associated with the partnership nature of constitution. Further the rating also factors in the deterioration in leverage and coverage indicators due to change in treatment of unsecured loans. At the time of last review ,Rs. 14.75 crore worth of unsecured loan was treated as quasi-equity as this was subordinated and expected to remain till the tenure of the loan as per sanction terms. Further as per revised sanction terms, lender had stipulated that Rs.20.59 crore of unsecured loan to remain subordinated and shall not be withdrawn during the tenure of the loan. However, as per balance sheet as on 31st March,2024, the unsecured loans stood reduced at Rs.14.43 crore. Accordingly, CARE Ratings has treated the unsecured loan as debt in current review due to the company not-adhering to the sanction norms set for sub-ordinated debt thus, impacting the credit metrics significantly. These rating weaknesses are partially offset by consistent improvement in scale of operations led by improved volumes as a result of addition of new products such as plates to its portfolio of products during FY24, and the firm's satisfactory operating cycle owing to low inventory and declining creditor days. The rating also factors in experience of the partners in trading business and diversified clientele with established relationship with suppliers and wide dealer network spread across norther Karnataka.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations above Rs. 700 Cr, net worth of more than Rs. 45 crores, while maintaining ROCE above 10%.
- TOL/TNW below 1.5x and Interest coverage (PBILDT/Interest) more than 2.5x

Negative factors

- Significant decline in the scale of operation with decline in PBILDT margins below 1%
- Deterioration in TOL/TNW over4x
- Elongation in the operating cycle by more than 90 days

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that the firm will continue to witness growth in scale of operations on the back of partners experience, continued growth in sales volume from newly added products, ,wide dealer network and established relationships with diversified clientele.

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

Detailed description of key rating drivers:

Key weaknesses

Deterioration in leverage and coverage indicators due to change in treatment of unsecured loans
As per sanction letter of bank dated 1st April,2023 unsecured loans worth Rs. 14.75 crore were subordinated to the bank and were not to be withdrawn during the tenure of the loan. As on 31st March,2023 the total unsecured loans stood at Rs. 20.59 crore out of which Rs. 14.75 crore were treated as quasi equity in our last review aligned with CARE Ratings Limited's (CARE Ratings') Policy. Further,as per sanction letter of bank dated Feb 06, 2024 ,bank had stipulated a condition that Rs.20.59 crore of unsecured loan to remain subordinated and shall not be withdrawn during the tenure of the loan. However, as per balance sheet as on 31st March,2024, the unsecured loans stood reduced to Rs.14.43 crore. Accordingly, CARE Ratings has treated the unsecured loan as debt in current review due to the company not-adhering to the sanction norms set for sub-ordinated debt thus, impacting the credit metrics significantly. This has resulted in moderation in debt coverage and leverage ratios with overall gearing and TOL/TNW at 3.22x and 3.65x as on 31st March,2024 as against 1.88x and 1.99x as on 31st March,2023. Further TD/GCA stood high at 16.83x in FY24(FY23: 12.23x). However, it is to be noted that on the back of infusion of partners capital along with accretion of profits in the past the net worth base has shown a consistent improvement and stood at Rs.25.88 crore as on March 31. 2024 from Rs.3.43 as on March 31, 2020.

Profitability susceptible to volatility in steel prices
The firm's profitability remains susceptible to volatility in prices of traded goods given the highly commoditized nature of the products. However, it maintains less than 10 days of inventory which helps the firm to mitigate the price volatility risk to some extent.It provides 30-40 days of credit period to its clients in view of high competition in iron and steel trading business. Any movement in prices of goods in stock will have an adverse impact on the margins.

Fragmented and cyclical industry with many regional unorganized players
Steel is a cyclical industry, strongly correlated to economic cycles since its key users viz., construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Besides local factors, the global demand supply situation especially China is major factor impacting the steel prices and volumes. The steel sector in India is characterized by existence of large number of small and medium sized trading players working at regional level. Accordingly, there is stiff competition.

Inherent risk associated with the partnership nature of constitution
SST being a partnership firm has the inherent risk of succession plan and the possibility of withdrawal of capital at the time of personal contingency, which can affect the capital structure.

Key strengths

Consistent improvement in scale of operations lead by improved volumes albeit thin margin
The firm started its trading operations from Dec 2019, within a limited time span the revenue has grown from Rs. 256 crore in first full year of operations in FY21 to Rs.679 crore in FY24 backed by consistent increase in volumes. During FY24 ,the TOI of the firm grew by 2.72%. In terms of volume, the volume of sales have grown by a CAGR of 28% during FY21 to FY24, while it grew by 13% in FY24 on a YoY basis. The firm reported a revenue of Rs.307 crore in H1FY25 (PY:Rs.304 crore) and PBILDT margin improved to 2.41% in H1FY25 (PY H1FY24:1.94%)
Though the firm has grown considerably, margins remain very thin due to trading nature of the business. The PBILDT margin declined marginally from 2.05% in FY23 to 1.99% in FY24. Going forward on the back of higher sales expected from plates, both scale and PBILDT margins are expected to witness an improvement.

Satisfactory operating cycle owing to low inventory and declining creditor days
The operating cycle of the firm remained satisfactory though increased from 40 days in FY23 to 46 days in FY24, the increase in cycle is mainly attributable to decrease in creditor days.The firm does not hold huge inventory and sales are done based on back-to-back basis. As a practise, the firm maintains inventory of only less than 10 days which mitigates the firm's exposure against the price volatility. Further the firm gives credit period of 30-40 days to its reputed customers and 90 days to project customers. The firm has been able to reduce the creditor days continuously, as the firm would be able to get better pricing from the suppliers in view of upfront payment.

Diversified clientele with established relationship
SST Steel Corporations has been successful in establishing a network of suppliers and customers within a short span of time despite having limited track record of business operations in steel trading business. It procures majority of its trading materials (TMT bars & wire rods and others) from established suppliers and sell its product to steel makers, traders, and end-users. Sales are, however, concentrated in Southern and western India majorly.

Liquidity: Adequate

The liquidity profile of the firm is adequate backed by sufficient cash accruals against minimal repayment obligations.The operating cycle of the firm remained satisfactory at 46 days. The firm maintains inventory of only 10 days and gives credit periods of 30-40 days to reputed customers. The average maximum working capital utilization during the last 12 months ending September'24 stood at 91%(on combined basis). Further, the firm has a modest cash and cash equivalents of Rs. 0.16 crore as on September 30, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Metals & Minerals Trading	Trading - Metals

SSTSC is a partnership firm established on August 01, 2019. The firm is promoted by Mr. Imran Khan and his brothers and is engaged in distribution cum retails trading in steel and in all kinds of building materials. Over the years, the firm has built a good network base of more than 400+ dealers in North Karnataka.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25(UA)
Total operating income	660.75	678.71	307.00
PBILDT	13.54	13.50	7.40
PAT	5.23	4.61	3.90
Overall gearing (times)	1.88	3.22	NA
Interest coverage (times)	2.41	2.07	NA

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

Status of non-cooperation with previous CRA: Not Applicable

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		-	-	-	57.00	CARE BB+; Stable
Fund-based - ST-Purchase Invoice Financing		-	-	-	33.00	CARE A4+

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	57.00	CARE BB+; Stable	-	1)CARE BB+; Stable (20-Dec-23)	-	-
2	Fund-based - ST-Purchase Invoice Financing	ST	33.00	CARE A4+	-	1)CARE A4+ (20-Dec-23)	-	-
3	Fund-based - ST-Vendor financing	ST	-	-	-	1)Withdrawn (20-Dec-23)	-	-

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 - ST-Purchase Invoice Financing	Simple

Annexure-5: Lender details

To view the 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.

Contact us

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About us:
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