

SKM Steels Limited

February 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	110.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	300.00 (Enhanced from 25.00)	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)	Assigned
Total Bank Facilities	415.00 (Rs. Four Hundred Fifteen Crоре Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The 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 4000 odd 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:

- Working Capital cycle to be less than 80 days on sustained basis.
- Improvement in the PBILDT margins to 6.00% on sustained basis.

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

- Significant and sustained decline in revenue or profitability
- 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

SSL is promoted by Mr. KM Shah who is having presence in the steel trading industry for more than four decades. Currently, the business is supported by his family members, 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 in the form of unsecured loans (Rs.47.48 crore as on March 31, 2021, vis-à-vis. Rs.65.67 crore as on March 31, 2020). The management is assisted by a team of professionals having adequate experience in relevant fields.

Comprehensive product portfolio

SSL 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 FY21 (April 01 to March 31), SSL derived around 34% of its overall revenues from sale of HR Coils/sheets, followed by TMT Bars contributing around 19%, G.P. coils/sheets contributing around 19%, CRCA coils/sheets contributing around 15%, 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.

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.

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

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 19.92% in FY21 indicating a well-diversified clientele base.

Decline in revenue; however, increase in margins

SKM's revenues de-grew by almost 11% on y-o-y basis to Rs.1372 crore during FY21 on account of Covid-19 lockdown imposed during H1FY21. PBILDT though low, due to the trading nature of the business, improved by 35% on a Y-o-Y basis and stood at Rs. 88 crore during FY21 (PY: Rs.65 crore) due to uptrend in steel prices and better margins received from sale of GP coils. Also, the company sold higher volumes of colour coated coils. PAT remained stable on Y-o-Y basis and stood at Rs.37 crore during FY21 with a PAT margin of 2.72% (vs. FY20: 1.23%).

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 moderate characterized by moderate overall gearing (calculated after including LCs and unsecured loans) which stands improved from 1.20x as on March 31, 2020, to 0.89x as on March 31, 2021. The improvement in gearing levels is due to lower utilisation of bank borrowings and reduction in unsecured loans. The leverage position of the company remains at satisfactory levels with adequate buffer for interest servicing as indicated by interest coverage ratio of 4.14x in FY21.

Key rating Weaknesses

Working capital intensive nature of operations

SKM's operations are working capital intensive as reflected in operating cycle of 114 days in FY21 mainly driven by the long receivable's realization cycle (avg. receivables of 83 days in FY21). 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 84% 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 December 2021 at around 54%.

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. During 2021, SKM recorded the bad debt of Rs.0.16 crore (vs Rs.1.47 crore in FY20), which is 0.05% (vs 0.47% in FY20) of the total receivables book of Rs.295 crores as on March 31, 2021 (vs Rs.308 crore in FY20).

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

Adequate liquidity characterized by satisfactory current ratio, which stood at 1.93x, as on March 31, 2021 (PY: 1.88x). Unencumbered cash and bank balance stood at Rs.17.35 crore on August 31, 2021. Average utilization for the past 12 months ending December 2021 was 54%, which reflects that there is sufficient head room available in the bank limits to support fresh business opportunities. The promoters also provide liquidity support to the company as and when required.

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](#)[Short Term Instruments](#)[Steel](#)[Wholesale Trading](#)**About the Company**

Incorporated in 1994, SKM Steels Ltd (SSL) was promoted by Mr. KM Shah in 1972. SSL 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. SSL has two service centres viz. located at Taloja (Maharashtra) and at Indore (Madhya Pradesh). SSL'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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	1541.97	1371.99	1738
PBILDT	64.91	88.03	Not Available
PAT	18.92	37.37	Not Available
Overall gearing (times)	1.20	0.89	Not Available
Interest coverage (times)	1.90	4.14	Not Available

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

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**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/ ST-Cash Credit		-	-	-	300.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Vendor financing		-	-	-	110.00	CARE A-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A2+

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-Cash Credit	LT	-	-	-	1)CARE BBB+; Negative (09-Nov-20) 2)Withdrawn (09-Nov-20)	1)CARE BBB+; Negative (24-Mar-20)	1)CARE BBB+; Stable (20-Mar-19) 2)CARE BBB+; Stable (06-Apr-18)
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)	1)CARE BBB+; Stable (20-Mar-19) 2)CARE BBB+; Stable (06-Apr-18)
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)	1)CARE A2 (20-Mar-19) 2)CARE A3+ (06-Apr-18)
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)	1)CARE BBB+; Stable (20-Mar-19) 2)CARE BBB+; Stable (06-Apr-18)
5	Fund-based - LT/ST-Cash Credit	LT/ST*	300.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (09-Feb-22)	-	-	-
6	Fund-based - LT-Vendor financing	LT	110.00	CARE A-; Stable				
7	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A2+				

* 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 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 instrument: CARE 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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