

Sree Tirumala Steel Enterprises

February 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term Bank Facilities	25.00 (Enhanced from 15.00)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	26.00 (Rs. Twenty-Six Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sree Tirumala Steel Enterprises (STSE) is constrained by the constitution of entity as a partnership firm limiting the financial flexibility, thin profitability margins due to trading nature of business, volatility in steel prices, leveraged capital structure with relatively high debt level, working capital intensive nature of business, cyclical nature of steel industry and intense competition from unorganized and fragmented nature of the industry. The rating, however, derives strength from long track record and vast experience of promoters in the industry, moderate size and scale of operation, established relationship with renowned steel players and low client concentration risk. The rating also takes note of the impact of covid-19 pandemic on the business operation which has been gradually recovering with opening up of the economy, easing of restrictions and improving market demand.

Rating Sensitivities

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

- Increase in the scale of operations along with improvement in the PBILDT margin above 5% on sustained basis.
- Improvement in leverage with overall gearing ratio below 2.00x on sustained basis.

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

- Deterioration in overall gearing beyond 3.00x on sustained basis.
- Stretch of operating cycle beyond 100 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Constitution of the entity as a partnership firm: The firm was constituted as a partnership firm by Mr. Grandhi Ramjee in the year 1998. A partnership firm by its nature has inherent risks associated with limited financial flexibility, withdrawal of the partners' capital and firm being dissolved upon the death/retirement/insolvency of the partner. There has been withdrawal of capital by partners from the firm which has impacted the overall partners' capital deployed in the business. The total capital withdrawal by partners during last three years ending FY20 has been Rs.1.68 crore.

Trading nature of business resulting in thin margins: The profitability margins of the firm are thin due to limited value addition in the trading business. The firm purchases steel and iron products from the suppliers and directly sells to its customers. As a result, the PBILDT margin of the firm has been thin at 3.52% during FY20 (2.38% during FY19 and 2.67% during FY18). The PAT margin stood at 0.71% during FY20 (0.64% during FY19 and 0.63% during FY18).

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

Leveraged capital structure with high debt level: The capital structure of the firm represented by the overall gearing remains leveraged at 2.84x as on March 31, 2020 as against 3.13x as on March 31, 2019. Given the working capital intensive nature of business and high dependence on external borrowings, the debt level has been high for the firm. The debt level has further increased in FY20 with avilment of Lease Rental Discounting loan during the year against the construction of school building in the name of the firm. The debt coverage metrics have also been on the moderate side.

High dependency on working capital borrowings: The trading businesses operations are working capital intensive by nature. With intense competition in the trading business and low margins, the firm procures majority supplies from large players on advance payment (to avail bulk discount) whereas it has to offer credit period of about 30-40 days to customers to maintain long term relations. This results in funds getting blocked in the working capital resulting in dependence on working capital borrowings. However, the firm maintains an optimum inventory level given the low lead time associated with procurement with proximity to major steel manufacturing companies. With the intensifying competition in the market, the firm has witnessed extension of operating cycle to 55 days in FY20 as against 36 days in FY19. The maximum working capital utilization remains high at about 93% for the past 12 months ending January 2021.

Cyclical nature of steel industry coupled with intense competition from unorganized sector: Prospects of the steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries like automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. 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 also characterized by high degree of fragmentation due to presence of larger number of unorganized players.

Key Rating Strengths

Vast experience of promoters and established track record: The firm belongs to Sree Tirumala group, which has presence in the steel and iron industry since 1962. Mr. Grandhi Appala Raju (late) was the founder of the group and later in his succession the group is managed by his son Mr. Grandhi Ramjee along with his family members. Sree Tirumala Steel Enterprises was incorporated in the year 1998 as a partnership firm and hence has been present in the industry for more than two decades.

Moderate size and scale of operation: With presence of about 23 years in the business, the firm has been able to scale up its operation. The revenue has been in the range of Rs.300 crore to Rs.500 crore in the last three years. The firm witnessed moderation in revenue by about 25% (to Rs.349 crore from Rs.468 crore) in FY20 due to overall slowdown as well as impact of reduced steel prices. Nevertheless, it was able to maintain its margins and improve it slightly during the year (by 114 bps).

Long standing relationship with renowned suppliers: The firm by virtue of its long presence in the industry has set up an established supplier base of renowned companies. Further, the firm is based out of Vishakhapatnam which has large steel manufacturing companies in the vicinity. The firm majorly purchases steel and iron products from renowned suppliers like Rashtriya Ispat Nigam Limited, Steel Authority of India Limited and Vizag profile Private Limited, etc. The firm is authorized distributor for SAIL and has Memorandum of Understanding with RINL for supply of steel and iron products.

Diversified client base thereby low client concentration risk: The firm has a widespread client base with supplies catering to dealers, traders, projects, manufacturing units etc. It has a client base of about 300 to 400 customers out of which 75% of clients are from Andhra Pradesh and remaining 25% from Gujarat and Maharashtra. During FY20, the top five customers contributed only 23.56% of the total revenue (11.46% during FY19 and 14.02% during FY18) resulting in lower client concentration risk.

Medium term lease rental visibility with in-built escalation and lock-in period clause: The firm completed construction of a school building of 1,03,800 Sq.ft. consisting of Ground plus 4 floors on its own land situated at Vellanki Village, Anandapuram Mandal, Vizag (AP). The said premises have been leased out to Narayana Educational Society for a period of 10 years with initial 9 years being lock-in period. The lease rentals will be escalated by 10% on every two years.

Minimal impact of Covid-19 pandemic on business operations: The Government of India had announced lockdown from the period March 21, 2020 to May 03, 2020 given the outbreak of global pandemic Covid-19. The lockdown had impacted production/operation of various business segments. Post the unlock of the country after the one and half month lockdown due to Covid-19 pandemic, the firm managed to resume its operations from May 05, 2020. The firm did not avail principal and interest moratorium on term loan and working capital facilities as provided by RBI as a part of covid-19 relief for the period March 2020 to August 2020.

Stable Industry Outlook: India's iron ore production is expected to fall over 20% to around 200 MT in FY21 from 247 in FY20 due to the delay in operationalization of auctioned mines in Odisha and impact of COVID-19 pandemic on mining operations. During FY21 steel consumption was driven by higher export demand, rural demand and demand from tractors, two-wheelers and passenger vehicle segment. Going forward, it is expected that the government fueled infrastructure spending will drive demand for steel. Work on projects which were stuck due to the Pandemic has started to move forward which will generate demand for steel. Government's thrust on improving the infrastructure of the country and investment in projects such as affordable housing, railway line, metro rail, shipbuilding and oil & gas distribution pipeline projects would ensure growth in steel consumption.

Liquidity - Stretched: The Liquidity position is marked by tightly matched accruals to repayment obligations with increasing debt level, extension of operating cycle over the years, high working capital utilization and modest cash balance of Rs.0.68 crore as on March 31, 2020. The maximum working capital utilization for the last 12 months ending January 2021 stood at 93%. The firm did not avail principal and interest moratorium on term loan and working capital facilities as provided by RBI as a part of Covid-19 relief. It has taken LRD loans for which the company is maintain DSRA in form of FD for one quarter debt servicing.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

Rating Methodology - Wholesale Trading
 Financial ratios - Non-Financial Sector
 Liquidity Analysis of Non-Financial Sector Entities

About the Firm

Sree Tirumala Steel Enterprises is a partnership firm and belongs to Sree Tirumala Group. The firm was incorporated in the year 1998 by G. Ramjee and his family members and is engaged in the trading of steel and iron products such as re-bars, channels, rounds, beams, billets, MS Sheet, MS Angles, HR sheet and pig iron.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	467.88	348.97
PBILDT	11.15	12.29
PAT	3.00	2.48
Overall gearing (times)	3.13	2.84
Interest coverage (times)	1.42	1.33

A: Audited

Status of non-cooperation with previous CRA: CRISIL continues the ratings assigned to the firm under "Issuer Not Cooperating" category vide press release dated June 19, 2020.

Any other information: Nil

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

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

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

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BB; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	1.00	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BB; Stable	-	1)CARE BB; Stable (14-Jan-20)	-	-
2.	Non-fund-based - LT-Bank Guarantees	LT	1.00	CARE BB; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Available

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.	Non-fund-based - LT-Bank Guarantees	Simple

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@careratings.com for any clarifications.

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