Hariom Concast And Steels Private Limited

March 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	20.02	CARE BB+; Positive (Double B Plus; Outlook Positive)	Assigned
Short -term Bank Facilities	4.50	CARE A4+ (A Four Plus)	Assigned
Total	**24.52 (Rupees Twenty four crore and fifty two lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hariom Consast and Steels Private Limited (HCSPL) derive strength from experienced promoters, established relationship with diversified client base and diversified product portfolio. Further, the ratings also derive comfort from consistent growth in scale of operations with satisfactory profitability margins, comfortable capital structure with debt coverage indicators during FY17 (Audited) (refers to the period April 1 to March 31).

The ratings, however, constrained by its moderate scale of operations, working capital intensive operations, exposure to raw material price volatility along with highly fragmented, cyclical & competitive nature of industry.

Going forward, HCSPL's ability to increase its scale of operations as envisaged while maintaining the along with utilization the increased capacity of the plant optimally will be the key rating sensitivities.

Outlook: Positive

The 'Positive Outlook' reflects firm's increasing total operating income, established relationship with the clients, diversified product portfolio with established brand name and y-o-y improvement in operational performance which is expected to result in growth in scale and improvement in key financial parameters. The outlook may be revised to 'Stable' if the firm is unable to achieve the growth as envisaged.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

Though the total operating income of the company has been increasing year-on-year, the scale of operations stands modest due to competitive business segment. The modest scale can restrict the financial flexibility of the company in times of stress and deprives it from benefits of economies of scale.

Cyclicality of the industry

Steel industry is cyclical in nature. Its growth is interlinked with the growth of the economy at large and, in particular, with the steel user industries such as railways, automobile, telecom and others. With HCSPL's products being steel related materials, the demand and prices for the same are also cyclical and volatile depending upon the fortunes of the industry.

Intense competition due to fragmented nature of industry

HCSPL is engaged in the manufacturing of M.S. Billets, H.R. Strips, M.S. Tubes and Scaffolding business, which is primarily dominated by large players and characterized by high fragmentation and competition due to the presence of numerous players in India owing to relatively low entry barriers. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on profitability.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Susceptibility to volatility in raw materials

The company does not have any backward integration for sourcing its basic raw material (i.e. pig iron/ sponge iron) and purchases the same from open market. Since the raw material is the major cost driver (around 60% of the cost of sales in FY17), the profitability margin of the company is susceptible to fluctuation in raw material prices. Any volatility in the raw material prices could not be passed on to the customers, always, which exposes the profitability margins to any adverse fluctuations.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature as reflected by working capital cycle of 135 days in FY17 (PY: 135 days). HCSPL is engaged in manufacturing of various steel products which requires high inventory due to lead time involved in processing the raw material to final finished product. The company extends a credit period of around 1.5 to 2 months to its customers being associated with the company for a long period of time. Despite presence in working capital intensive industry, the company managed to utilize the working capital facility very efficiently and utilization levels remains on a lower side. The average fund based working capital utilization of the company stood low at 55-60% for trailing 12 months ending October 2017 indicating moderate reliance on bank finance to meet the working capital requirement.

Key Rating Strengths

Long track record and experienced and resourceful promoters in Iron and Steel industry

HCSPL was promoted by Mr Roopesh Kr Gupta, Mr Shailesh Kr Gupta and Mr Rakesh Kr Gupta in 2007. All the promoters are graduates in different fields i.e. commerce and arts, having experience of about three decades in steel industry. Long and satisfactory track record of operation has helped the company to establish satisfactory relationship with the customer and suppliers. Till March 31, 2017, the total fund infusion by the promoters in the company stands at Rs.12.65 crore.

Diversified customer base with long term relationship with customers and suppliers and moderate geographic coverage

HCSPL has a well-diversified customer base. The company's customers include around 935 wholesale dealers and traders as on October 2017 in and around southern region of India. Out of the total customers, 55-60% are in pipes and scaffolding segment and remaining for MS billets and HR strip/coils. HCSPL has been associated with its customers since long which has enabled it to get repeat orders from its customers. The company is getting 100% of the total revenue from southern region of India

Diversified product profile with established brand name

HCSPL is engaged in the business of manufacturing of MS Billets and HR coils/strip of varied thickness, width and different types of grades depending upon the requirements of the customer. The company is also engaged in the manufacturing of steel tubes of different shapes and sizes which mainly caters to the infrastructure sector and which further diversifies its product portfolio. The company sells its products under the brand name of "HARIOM" which has been in the industry for around one decade and is widely recognized in the local market.

Integrated operations

The manufacturing plant of HCSPL is located at Mahbubnagar Dist, Telangana. The manufacturing facilities of the company are entirely integrated i.e. starting from manufacturing of MS Billet to manufacturing of MS Tubes and Scaffolding accessories in the same premises at the five different units. The first unit finished product is the raw material for second unit; further second unit finished products are the raw material for third unit, till the fifth unit. The company likewise manages to minimize the logistics and power cost since the plant is an integrated unit.

Year-on-year improving operational performance resulting in increasing total operating income with satisfactory profitability margins

The company's total operating income has increased by a CAGR of 26.11% during the review period (FY15 to FY17), primarily on account of improving capacity utilisation along with increase in sales realization per unit across all product portfolio. The profitability margins of the company have been satisfactory in the last three financial years ending FY17 with an exception in FY16. The PBILDT margin dipped by 400 bps in FY16 over FY15 due to decrease in sales realization on account of decline in prices of steel during the said period. The decline in steel prices was mainly on account decline in exports, which resulted oversupply in the domestic market and decreased the prices of steel. The company incurred net losses in FY16 compare to profits in FY15 mainly on account of low operating profits resulting in under absorption of high depreciation and interest cost. However, the company turnaround from losses to profits in FY17, due to significant increase in PBILDT levels.

Comfortable capital structure and debt coverage metrics

The capital structure of the company has improved year on year marked by debt equity and overall gearing ratio mainly on account of infusion of funds in the form of preference share capital (issued for a period of 10 years) and unsecured loan considered as quasi capital coupled with accretion of profits to reserves. The debt to equity and overall gearing of the company improved to 0.11x and 0.86x as on March 31, 2017 due to increasing networth and moderate debt levels. The Total debt/GCA which deteriorated to 64.98x during FY16 compared to FY15 mainly on account of net losses incurred and reduced gross cash accruals (GCA) subsequently improved to 4.42x in FY17 with improvement in profitability and GCA levels. Interest coverage of the company also stood satisfactory at 2.67x in FY17.

Stable outlook for Iron and Steel industry

India's crude steel output grew 10.7 per cent year-on-year to 25.76 million tonnes (MT) during January-March 2017. India's crude steel output during April 2017 grew by 5.4 per cent year-on-year to 8.107 MT. India's finished steel exports rose 102.1 per cent to 8.24 MT, while imports fell by 36.6 per cent to 7.42 MT in 2016-17. India's steel exports rose 142 per cent in April 2017 to 747,000 tonnes over April 2016, while imports fell by 23 per cent to 504,000 tonnes in April 2017 over April 2016. Total consumption of finished steel grew by 3.4 per cent year-on-year at 6.015 MT during April 2017. In the coming financial year 2017-18, steel production is expected to remain higher. This will be backed by an expected revival in consumption. An increase in infrastructure allocation by the government in the Union Budget 2017-18 is expected to drive the pace of construction and infrastructure in the country. Apart from this, the National Steel Policy 2017 released by the government also aims to increase steel production. Thus, both production and consumption of steel is expected to remain buoyant in 2017-18.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector

About the company

Hariom Concast & Steels Private Limited (HCSPL), Hyderabad was incorporated in 2007. The promoters of this company are Mr Roopesh Kr Gupta, Mr Shailesh Kr Gupta and Mr Rakesh Kr Gupta. The company is engaged in manufacturing of various steel products such as M.S. Billets, H.R. Strips, M.S. Tubes and Scaffolding. The company's manufacturing unit is located at Balanagar Mandal, Mahabubnagar District, Telangana. The manufacturing unit has 3 divisions namely Furnace division (28,000 MTPA), Rolling /Slitting unit (18,000 MTPA) and Pipe/Scaffolding unit (20,000 MTPA) with installed capacity utilisation of 96.43%, 83.33% and 80% in FY17 respectively. The company sells its steel products under the brand name of 'HARIOM'. The company generates 100% revenue from southern region which includes Karnataka, Tamil Nadu, Andhra Pradesh and Telangana. The entire sales in southern region are executed through brokers/dealers. However for local sales, HCSPL prefers retailers and in some instances directly sales to the respective clients.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	73.79	87.53
PBILDT	2.82	7.25
PAT	-1.53	1.63
Overall gearing (times)	1.59	0.86
Interest coverage (times)	1.15	2.67

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
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/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-Term Loan	-	-	-	0.85	CARE BB+; Positive
Fund-based - LT-Term Loan	-	-	-	1.17	CARE BB+; Positive
Fund-based - LT-Cash Credit	-	-	-	18.00	CARE BB+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	4.00	CARE A4+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.85	CARE BB+; Positive	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	1.17	CARE BB+; Positive	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	18.00	CARE BB+; Positive	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4+	-	-	-	-
5.	Non-fund-based - ST-Letter of credit	ST	4.00	CARE A4+	-	-	-	-

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