

SKM Steels Limited

November 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-Term Bank Facilities – Term Loan	-	-	Reaffirmed at CARE BBB+, Outlook: Negative/ CARE A2 and Withdrawn
Long-term Fund Based Bank Facilities	-	-	Reaffirmed at CARE BBB+, Outlook: Negative/ CARE A2 and Withdrawn
Short-term Non Fund Based Bank Facilities	-	-	Reaffirmed at CARE BBB+, Outlook: Negative/ CARE A2 and Withdrawn
Total Facilities	-		

Details of facilities in Annexure

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of '**CARE BBB+; Negative/CARE A2**' [**Triple B Plus; Outlook: Negative/ A Two**] assigned to the bank facilities of SKM Steels Limited (SKM), with immediate effect. The above action has been taken at the request of SKM and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The rating factors in the comfort from established track record, stable financial performance, long standing position as leading distributor for Tata Steel products in western India, and well distributed sales and marketing network which serves 800 odd customers in diverse sectors like white goods, automobile, construction etc. However, the above strengths are tempered by SKM's thin profit margins, significant exposure to counter party credit risk and fragmented, cyclical nature of the steel trading business.

Detailed Description of key rating drivers

Key Rating Strengths

Established track record coupled with extensive experience of promoter's in steel industry

SKM is engaged in trading of steel products and was established as a partnership firm namely M/s. Shah Kirtilal Moolchand & Co. in 1972, and was later incorporated into a private limited company in 1994. The company was promoted by Mr. Kirtilal Moolchand Shah, a first-generation entrepreneur with an experience of more than four decades in the current line of business. He is assisted by his son, Mr. Amit Shah, and son-in-law, Mr. Chirag Shah (Director), who have been working in steel trading since last 20 years, each.

Distributorship of Tata Steel Limited along with processing centers providing large market access

SKM is an authorized distributor of products manufactured by Tata Steel which accounts for more than 90% 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. Besides, the company also has an exclusive arrangement with Tata Steel for rolling and conversion, wherein 10% of the capacity (~2500 MT/ month) at the Tarapur plant is reserved, providing back-end processing support for the company.

Steady revenues coupled with improving albeit thin profitability margins

SKM's revenues decreased by around 5% on y-o-y basis to Rs.1542 crore in FY20 (UA) due to Covid-19 lockdown during Q4FY20. On account of increased sales of higher margin niche products like BQ Plates (bought from Jindal Steels) and colour coated PPGL (bought from Tata – Bhushan), PBILDT margins during FY20, though low, due to the trading nature of the business, improved on Y-o-Y basis and stood at 4.17% (PY: 3.51%). During FY20, company reported a stable Y-o-Y PAT of Rs.15 crore and a PAT margin of 0.98% (PY: 0.90%).

Well established and diversified clientele base on account of comprehensive product portfolio

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 800+ customers, pertaining to automotive sector, white goods manufacturers, construction sector etc.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Key Rating Weakness

Counterparty Credit risk

SKM typically provides 60-90 days credit terms to the buyers. During FY20 (UA), the bad debt stood at zero (vs Rs.11.50 crore in FY19 (A)). We also analysed the top 5 debtors in the Book debt statement, and majority of these buyers carry below investment grade ratings. The largest debtor on the book, had an exposure of Rs.60 crore as on March 31, 2020, and with credit terms of more than six months. This poses substantial counterparty credit risk which is managed by SKM through close monitoring, and timely follow-ups.

Volatility in Steel Prices

The procurement prices are determined by Tata Steel based on monthly steel prices. Most of the procurements are based on expected demand and are generally not order backed. The company is thus exposed to volatility in steel prices. 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

SKM's liquidity position continue to remain adequate with around 75% unutilized bank lines at the end of June-2020, cash & bank balance of around Rs.3 crore as on June 30, 2020 and NWC/ Current Assets of ~62% as on June 30, 2020. The promoters also provide liquidity support to the company as and when required. Net Working Capital to Total Current Asset as at the end of June - 2020 was around 60%.

Analytical approach: Not Applicable

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Rating](#)

[Criteria for Short Term Instruments](#)

[CARE's default recognition policy](#)

[Financial ratios - Non Financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Methodology - Wholesale Trading](#)

About the Company

Incorporated in 1994, SKM Steels Ltd (SKM), promoted by Mr. Kirtilal M. Shah and his family, is engaged in trading and of various steel products. The company finds its roots in a partnership firm named as M/s.Shah Kirtilal Moolchand & Co., set up in 1972 by Mr. Kirtilal Shah. SKM has authorized 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, Galvanized 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. SKM has two service centers viz. located at Taloja (Maharashtra) and at Indore (Madhya Pradesh). SKM'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. It is also a government recognized export house with an ISO: 9001-2000 certificate for industrial excellence to its credit.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)	FY20 (UA)
Total Revenue	1385	1633	1542
PBILDT	47	57	64
PAT	10	15	15
Overall Gearing (times)	1.07	1.28	0.78
Interest coverage (times)	1.86	1.86	1.83

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Facilities

Name of the facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Ratings assigned along with Ratings Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Vendor financing	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn

Annexure-2: Ratings History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Ratings 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	-	-	-	1)CARE BBB+; Negative (24-Mar-20)	1)CARE BBB+; Stable (20-Mar-19) 2)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (21-Apr-17)
2.	Fund-based - LT-Vendor financing	LT	-	-	-	1)CARE BBB+; Negative (24-Mar-20)	1)CARE BBB+; Stable (20-Mar-19) 2)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (21-Apr-17)
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A2 (24-Mar-20)	1)CARE A2 (20-Mar-19) 2)CARE A3+ (06-Apr-18)	1)CARE A3+ (21-Apr-17)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB+; Negative (24-Mar-20)	1)CARE BBB+; Stable (20-Mar-19) 2)CARE BBB+; Stable (06-Apr-18)	-

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.	Fund-based - LT-Vendor financing	Simple
3.	Non-fund-based - ST-Letter of credit	Simple
4.	Term Loan-Long Term	Simple

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.

Contact us
Media Contact

Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Manohar Annappanavar

Contact no. : +91-22-6754 3436

Email ID: manohar.annappanavar@careratings.com

Business Development Contact

Mr. Ankur Sachdeva

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.