Sree Tirumala Steel Enterprises

January 14, 2020

Ratings

Facilities	Amount (Rs.crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total facilities	15.00 (Rs. Fifteen crore only)		

Details of instruments/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 thin profitability margins due to trading nature of business, leveraged capital structure, weak debt coverage indicators, working capital intensive nature of operations since the firm's reliance of working capital borrowings is high, constitution of entity being a partnership firm, cyclical nature of steel industry and intense competition from unorganized sector. The rating, however, derives strength from increasing scale of operations during FY17-19 (refers to period from April 01 to March 31), long standing relationship with renowned suppliers Rashtriya Ispat Nigam Limited (RINL) and Steel Authority of India (SAIL) and low client concentration risk.

Rating sensitivities:

Positive factors:

- Increase in the scale of operations along with improvement in the PBILDT margin above 5% on sustained basis.
- Lower client concentration risk with no client contributing more than 4.00% of total operating income.
- Generation of sufficient cash accruals resulting in reduced reliance of working capital borrowings.

Negative factors:

- Overall gearing going beyond 3.50x on sustained basis.
- Any slowdown in the consumption of steel and iron products from user industry such as construction, automobiles and engineering and fabrication industry can significantly impact the financial performance of the firm.

Detailed description of the key rating drivers

Key Rating weaknesses

Thin profitability margins due to trading nature of the business

The profitability margins of the firm are very 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 without any value addition due to which, the PBILDT margin of the firm is very thin and low at 2.38% during FY19 (2.67% during FY18) and the PAT margin is at 0.64% during FY19 (0.63% during FY18).

Leverage capital structure and weak debt coverage indicators

The capital structure of the firm represented by the overall gearing remained leveraged at 3.31x as on March 31, 2019 (3.47x as on March 31, 2018) due to high total debt levels as the firm's reliance on working capital borrowings is high. However, the debt to equity ratio of the firm is moderate and below unity at 0.52x as on March 31, 2019 (0.29x as on March 31, 2018). The PBILDT interest coverage ratio of the firm is moderate at 1.59x during FY19 as against 1.57x during FY18. The debt coverage indicators such as Total debt/GCA and Total debt/PBILDT are weak at 22.08x and 6.54x as on March 31, 2019 (28.71x and 7.27x as on March 31, 2018) respectively.

Working capital intensive nature of the business

Since the firm is into trading business its reliance on working capital borrowing is high. Generally the firm makes advance payment to RINL and SAIL while purchasing the products and takes credit period of one to two weeks for paying other suppliers. The firm always stocks 1000- 1500 tons of products as inventory to make sure that all the customers are supplied on time and the average inventory period of the firm is moderate at 15 days during FY19 (24 days during FY18). The firm also gives credit period of 30 to 40 days to its customers in order to maintain long standing relationship with them. The average working capital utilization of the firm also remains high at about 95% for the past 12 months ending November 30, 2019.

Constitution of the entity being a partnership firm

Sree Tirumala Steel Enterprises being a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partner.

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

During FY18 and FY19, it is observed that the promoters withdrawing the capital to the extent of Rs. 1.25 crore and Rs. 0.38 crore respectively. Moreover, partnerships firms have restricted access to external borrowings as credit worthiness of the partners would be key factors affecting credit decision for the lenders.

Cyclical nature of steel industry coupled with intense competition from unorganised 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

Experienced group and established track records in the steel and iron industry

Sree Tirumala Steel Enterprises belongs to Sree Tirumal 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 Mr. G Ramjee and his wife Mrs. G Anupama are the partners of the firm. Mr. G Ramjee, the managing partner is having more than two decades of experience working in steel and iron industry.

Increasing scale of operations during FY17-FY19

The total operating income of the firm increased at a CAGR of 20.40% from Rs. 268.05 crore during FY17 to Rs.369.06 crore during FY18 and then to Rs. 467.88 crore during FY19 on the back of increasing sales.

Long standing relationship with suppliers

With long standing presence in the trading business, the partners have established good relationship with its suppliers. The firm majorly purchases steel and iron products from renowned suppliers Rashtriya Ispat Nigam Limited (RINL), Steel Authority of India (SAIL) and Vizag profile groups since its inception and is maintaining good relationship with them ensuring regular supply of products whenever required. The firm also purchases products from other parties based on the requirements.

Established relationship with customers along with lower client concentration risk

The firm supplies to about 250 to 300 customers out of which 90% of their customers are from Andhra Pradesh and remaining 10% from Gujarat and Maharashtra. The firm has established and is maintaining good relationship with their customers by getting repeated orders from them. During FY19, the top five customers contribute only 11.46% (14.02% during FY18) of the total revenue resulting in lower client concentration risk. Therefore, long standing relationship with clients along with lower client concentration risk enables the firm to post consistent revenue year on year.

Liquidity: Stretched

The liquidity profile of the firm remains stretched marked by high fund based working capital utilization level of about 95% for the trailing 12 months ending November, 2019. During FY19, the firm has availed LRD loan amounting Rs.14.80 crore against lease rental from Narayana Educational Society. The rental income from the society is adequate to meet the LRD loan repayment obligation comfortably. Till November 30, 2019, the company has repaid total debt obligations of Rs. 1.88 crore out of total debt obligations of Rs.3.05 crore for FY20. During FY19, the firm generated gross cash accruals of Rs.3.30 crore. Going forward ability of the firm to tie-up for additional working capital funds in line with growth in scale of operations forms critical to efficiently manage the working capital requirement arising therefrom.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
CARE's Criteria on assigning Outlook to Credit Ratings
Financial ratios –Non-Financial Sector
CARE's methodology for Wholesale Trading sector

About the Company

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. The firm purchases steel and iron products from renowned suppliers Rashtriya Ispat Nigam Limited (RINL), Steel Authority of India (SAIL) and Vizag profile groups, and has over 250 to 300 customers majorly spread across the geographical region of Andhra Pradesh.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	369.06	467.88
PBILDT	9.87	11.15
PAT	2.32	3.00
Overall gearing (times)	3.47	3.13
Interest coverage (times)	1.57	1.59

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

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-Cash Credit	-	-	-	15.00	CARE BB; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB; Stable	-	-	-	-

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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