

RATING RATIONALE

21 Sept 2020

National Steel Company

Brickwork Ratings reaffirms the long term ratings for the bank loan facilities of Rs. 20.80 Crs of National Steel Company.

Particulars:

Facility Rated	Limits (Rs. in Crs)		Tenure	Previous Rating (30th Mar 2020)	Present Rating
	Previous	Present			
<u>Fund Based:</u>	21.00	20.80	Long Term	BWR B (Stable) Downgraded ISSUER NOT COOPERATING *	BWR B (Stable) Reaffirmed
Total	21.00	20.80	(Rupees Twenty Crores and Eighty lakhs Only)		

**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

**Details of Bank facilities are provided in Annexure-I.

* Issuer did not cooperate, based on best available information

** City Union Bank Term Loan of Rs.3.14Crs ; Standard Chartered Bank Term Loan of Rs.4.95Crs; Cash Credit from City Union Bank Of Rs.6.50Crs ; OD from South Indian Bank of Rs.3.75Crs are not included for the purpose of rating.

RATING ACTION / OUTLOOK

BWR has essentially relied upon the audited financial statements of FY17,FY18,FY19, provisional FY20 statements and projections upto FY22 of National Steel Company, publicly available information and information / clarifications provided by the entity's management. The rating has factored the long operational track record and established Presence in Kerala . However, the ratings are constrained by Moderate financial risk parameters , Working Capital Intensive Operations , Supplier concentration Risk , Intense Competition , vulnerability to cyclical nature of industry and impact of Covid-19, Constitution of the entity as a proprietorship concern .

BWR believes that the National Steel Company's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit



margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

KEY RATING DRIVERS

The key rating drivers of the concern are as follows:

Credit Strengths:

- **Long operational track record and experienced management:** Mr. Subin Joseph is the proprietor of the concern and has more than 20 years of experience in the steel industry and since the concern has been in existence from 2003, it has established long standing relationship with its clients.
- **Established Presence in Kerala:** National Steel Company is one of the leading distributors of steel in Kerala and has strong tie-ups with many reputed clients and suppliers.

Credit Risks:

- **High Gearing level :** The concern has high gearing ratio indicated by Total debt/TNW at 5.44 times and TOL/TNW at 6.43 times in FY19 (audited) due to moderate tangible net worth of Rs. 7.39 Crs.
- **Moderate financial risk parameters:** The total operating income has declined around 26% from Rs.119.57 Crs in FY19 (audited) to Rs. 87.82 Crs in FY20 (provisional). DSCR has significantly decreased from 1.08 in FY18 (audited) to 0.72 in Fy19 (audited) . Current ratio improved marginally to 1.22 times in FY19 (audited) as compared to 1.19 times in FY18 (audited). Net profit margin has marginally increased from 0.48 % in FY18 (audited) to 0.58% in FY19 (audited).
- **Working Capital Intensive Operations :** The concern's working capital intensity remains high being in the steel industry. The same is reflected through the elongated conversion cycle of 105 days in FY19 (audited) and 135 days in FY20 (provisional) , Days receivables increased from 100 days in FY19 (audited) to 132 days in FY20 (provisional) as against conversion cycle and days receivable of 87 days and 107 days respectively in FY18 (audited) .
- **Supplier concentration Risk :** The supplier base of the concern is concentrated with procuring TMT steel bars of more than 35% from their group company.

- **Intense Competition , vulnerability to cyclical nature of industry and impact of Covid-19 :** The iron & steel sector in India is highly competitive and fragmented with the presence of a large number of players in the industry which puts pressure on the profitability of the concern . The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.However, due to COVID-19, the imports of the country might take a backseat, therefore opening more opportunities to the domestic manufacturers and traders during the coming years.
- **Constitution of the entity as a proprietorship concern:** Given the proprietorship nature of the concern, there is an inherent risk of the possibility of withdrawal of partner's capital for any personal contingency that could adversely impact the capital structure of the concern.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyper links provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the concern to improve its scale of operations, profitability margins, overall credit risk profile and efficiently manage its term loan obligations would be the key rating sensitivities.

Positive: The ratings may be upgraded in case revenue, profitability, liquidity and networth of the concern show significant improvement.

Negative:The rating may be downgraded in case there is a significant deterioration in the business and financial risk profile of the concern.

LIQUIDITY POSITION

Cash and cash equivalents are Rs. 0.34 Crs for FY19 (audited). The Current ratio of the concern is average at 1.22 times and gearing ratio of the concern is high at 5.44 times for FY 19 (audited). The debt protection metrics are also average indicated by ISCR at 1.81 times and DSCR at 0.72 times for FY 19 (audited). Average credit utilization for the last six months is more than 95%. Therefore, the overall liquidity position is stressed.

COMPANY PROFILE

National Steels Company is a proprietorship concern situated at Ernakulam, Kerala and was established in 2003. It also has branches in Kottayam and Trivandrum . Mr.Subin Joseph is the proprietor of the concern and has more than 15 years of experience in the steel industry.

Concern is into trading and distribution of non-integrated TMT, rolled and structural products which are primarily used for construction purposes.National Steel Company is an authorized

distributor for major steel manufacturers such as Steel Authority of India Limited, Tulsyan NAC Ltd and Ambuja cements limited. The Concern has a strong presence in South India and its storage facilities are located in Cochin, Kalamassery and Palakkad.

KEY FINANCIAL INDICATORS (in ₹ Crs)

Key Parameters	Units	FY20	FY19	FY18
Result Type		Provisional	Audited	Audited
Operating Revenue	₹ Crs	87.82	119.57	117.44
EBITDA	₹ Crs	3.65	1.43	4.27
PAT	₹ Crs	0.62	0.70	0.56
Tangible Net worth	₹ Crs	8.70	7.54	5.72
Total Debt/Tangible Net worth	Times	4.35	5.44	7.28
Current Ratio	Times	1.13	1.22	1.19

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument / Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (₹ Crs)	Rating (2020)	30th Mar 2020	12th Feb 2019	2018
Fund based:	Long Term	20.80	BWR B (Stable) Reaffirmed	BWR B (Stable) Downgraded ISSUER NOT COOPERATING *	BWR B+ (Stable)	-
Total		20.80	Rupees Twenty Crores and Eighty lakhs Only			

* Issuer did not cooperate; based on best available information

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Trading Entities](#)

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ANNEXURE I

National Steel Company

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Crs)	Short Term (₹ Crs)	Total (₹ Crs)
1.	IndusInd Bank	Cash Credit Term loan	19.00 1.80*	-	20.80
TOTAL					20.80

*outstanding term loan amount.

Note : City Union Bank Term Loan of Rs.3.14Crs ; Standard Chartered Bank Term Loan of Rs.4.95Crs; Cash Credit from City Union Bank Of Rs.6.50Crs ; OD from South Indian Bank of Rs.3.75Crs are not considered for the purpose of rating.

Total Twenty Crores and Eighty lakhs Only.



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