October 14, 2022

Stecol International Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term – Unallocated	50.00	50.00	[ICRA]BB+ (Stable) / [ICRA]A4+; reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of Stecol International Private Limited's (SIPL) ratings favourably factors in the extensive experience of the management in the steel industry. The ratings also factor in the favourable business model of SIPL with long-term agreement with suppliers, order-backed purchases, minimum inventory holding, and supply to customers against payment of security, leading to low working capital intensity of operations. The ratings also consider the diversified customer base and geographically spread revenue of SIPL across India. Expansion of the product offering by trading in new products like stainless steel, structural steel (beams, columns, channels and angles) and coal[1] with favourable demand environment is expected to support the revenue growth in the medium term. The ratings further take comfort from SIPL's debt-free capital structure.

The ratings are, however, constrained by SIPL's lower-than-expected revenue in FY2022. Despite the rally in commodity prices, which lifted the profits of most companies engaged in the steel industry to all-time high levels in FY2022, SIPL's profits remained weaker than FY2021. While the top line was affected following the Russia-Ukraine war-led steel price rally, which had impacted domestic demand in end-February-March 2022, the earnings declined in FY2022 over FY2021 partly due to few one-time costs incurred by the company. That said, the company reported revenue of ~Rs. 220 crore in 4M FY2023 against ~Rs. 169 crore recorded during the same period previous year on the back of improvement in demand post correction of steel prices. The ratings are further constrained by SIPL's low net worth, which had shrunk following the company taking a large one-off provision against sticky receivable in FY2019. A low net worth makes the company vulnerable to a period of prolonged business downturn and constrains its financial flexibility. However, ICRA observes that the company's net worth has been gradually increasing over the years, and its working-capital light operating model has enabled it to prudently allocate capital to fund growth opportunities, leading to the TOL / TNW[2] remaining at a comfortable level of 1.4 times as on March 31, 2022. Additionally, the ratings reflect the company's limited track record of just over four years. ICRA, however, takes comfort from the significant experience of the management in the steel business. The ratings are also constrained by the highly concentrated supplier base with only ten suppliers across India. However, the company's established relationship with suppliers and long-term contract enable regular supplies. The ratings are further constrained by the thin operating margins inherent in the trading nature of the business, and intense competition, given the low entry barriers. SIPL's profit margin is also exposed to the cyclicality in the steel industry and any adverse fluctuation in steel prices may exert pressure on the profit margins.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that SIPL will maintain its conservative capital structure and its revenue growth will be supported by the demonstrated track record of the management in the steel business.

[1] SIPL is evaluating to restart the coal trading business after it was discontinued in FY2019

[2] Total Outside Liabilities / Tangible Net Worth

Key rating drivers and their description

Credit strengths

Extensive experience of management in the steel business – The Directors and top management personnel of SIPL have more than 30 years of experience in the steel industry. SIPL's board members, and top management persons have held various key positions in leading steel companies and industry associations in India. Extensive experience of key personnel has benefitted SIPL in bringing new vendors and customers from various regions.

Favourable business model mitigates price risk and ensures low working capital intensity – The company has a long-term agreement with its vendors for purchase of TMT Rebars embossed with the brand, "Essar" as per the agreed formula (this includes all the costs). The company sources from limited vendors across India through long-term offtake arrangement. The company does not hold any major inventory as the purchases are order backed. This apart, the company takes advances from its customers or provides credit against a payment of security. This aids the company in mitigating the risk of fluctuation in steel prices on profit margins to a large extent and ensures a low working capital intensive nature of operations.

Debt-free capital structure – Aided by SIPL's working-capital light operating model, its business return indicators remain attractive, as reflected by its core RoCE of 116.13% in FY2022. Further, SIPL has been prudent in funding its business requirement through internal accruals till FY2021. Therefore, its external borrowings remained nil in FY2021. That said, the company availed temporary ICD[3] of ~Rs. 11 crore to support its import requirement amid steel price rally for two months, which has been repaid as on March 31, 2022. Besides, the company's dependency on ICDs is likely to be limited to the extent of funding bulk import consignments. Supported by the company's low inventory holding, the working capital intensity remains low, which in turn has necessitated minimal external funding requirement to support turnover growth. However, with the significant growth planned over the next 12-18 months, SIPL could require external bank financing to fund the incremental working capital requirement, and ICRA understands that discussions are underway to secure working capital bank limits.

Geographically diversified revenue base – SIPL's revenue is dominated by trading of TMT bars across India. After increasing by over 230% in FY2020, the revenues have remained largely stagnant in FY2021 and FY2022), being impacted by a combination of factors which included the pandemic outbreak and the sharp steel price rally post the Russia-Ukraine war, which had impacted demand in end-February-March 2022. However, the domestic steel demand growth momentum remained strong in the current fiscal, as India's finished steel demand grew by 11.2% year-on-year (YoY) during April-August FY2023, making India the fastest growing major steel market globally at present.[4] Given the favourable operating environment, SIIPL recorded a healthy growth of ~30% in 4M FY2023, and ICRA expects the company to register a 25% growth in FY2023 full year.

Credit challenges

Low net worth, however, the same is gradually increasing – The net worth of the company stood low at Rs. 21.30 crore in FY2022. Post the change in ownership to Niwas Residential & Commercial Properties Private Limited, the company created a provision of Rs. 22.09 crore in FY2019 owing to doubt about recovery of certain advances, which led to a significant erosion of its net worth. However, the same has gradually increased from a low of Rs. 2.64 crore in FY2019. SIPL's low net worth makes the company less resilient to withstand a sustained period of business downturn and constrains its financial flexibility.

Limited track record of operations – Niwas Residential & Commercial Properties Private Limited (which has now sold its entire stake to CITOC Ventures Private Limited) took over the business of Yojana Realties Private Limited (YRPL) and changed its name to Stecol International Private Limited in October 2018. Subsequently, the company started trading in TMT bars, and therefore has a limited track record of four years. Nonetheless, ICRA derives comfort from extensive experience of the management in the steel business.

Intense competition and thin operating margins inherent in the trading business – The company faces intense competition in a highly fragmented steel trading industry due to low entry barriers. SIPL faces competition from numerous organised and

[3] Inter Corporate Deposit

[4] Industry Report – Ferrous Metals – September 2022

unorganised players, which restricts its pricing flexibility. SIPL's operating margins remained subdued due to low value addition and competition. However, an experienced management team and firm tie-ups with vendors aided in adding new customers and achieving a healthy revenue growth.

Highly concentrated supplier base – SIPL has exclusive authorisation to use the trademark of Essar and has entered into contract manufacturing tie-ups with third party suppliers to manufacture Essar TMT bars. The company has only ten suppliers spread across various states, which exposes it to concentration risk. However, ICRA notes that the company's established relationship and long-term agreement with its suppliers enabled it to ensure timely supply of materials, which helped SIPL meet commitment with its customers.

Cyclicality inherent in steel industry likely to keep cash flows volatile – The company's profit margins are mainly affected by fluctuation in steel prices. Any adverse movement in the prices could have an adverse impact on its margins. Moreover, the trading nature of operations with limited value addition restricts SIPL's margins.

Liquidity position: Adequate

SIPL's liquidity is expected to remain adequate, as evident from its debt-free status and healthy free cash balance of Rs. 11.7 crore as on March 31, 2022. As the company is going through a high-growth phase, free cash flows are expected to remain constrained owing to incremental working capital requirement. ICRA, however, understands that SIPL is under discussions with lenders to avail working capital facilities, which would be required, going forward, to support its business growth. Nonetheless, the company's low working capital intensity will support its liquidity profile, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade SIPL's rating if a consistent growth in revenues and improved profitability result in a healthy growth in cash accruals and strengthen its net worth.

Negative factors – Pressure on the company's rating could arise if there is a significant decline in the revenues or a stretch in the working capital cycle, resulting in tight liquidity. A substantial increase in debt, leading to a deterioration in the capital structure on a sustained basis, will also be a credit negative. Specific credit metrics that could trigger a downgrade includes TOL/TNW of more than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metal Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

SIPL was incorporated as Yojana Realties Pvt. Ltd. in 2008. The name of the company was changed to Stecol International Private Limited and it started trading in steel and allied products from October 2018 following a change in the ownership by Niwas Residential & Commercial Properties Pvt. Ltd. from the earlier Imperial Consultants and Securities. In FY2023, Niwas Residential & Commercial Properties Private Limited has sold its entire ownership to CITOC Ventures Private Limited. SIPL is an ISO 9001:2015, 14001:2015, 45001:2018 certified company. Besides, it has undertaken different digitisation drives in the last three years. At present, the company's primary activity is selling and marketing of TMT bars under the brand name, Essar TMT. In addition, it is gradually scaling up stainless-steel products trading and is looking to restart coal trading business in the near future, after it was discontinued in FY2020. The company has contract manufacturing tie-ups with third party vendors to manufacture Essar TMT Bars and Essar Structural Steel. The company has a pan-India presence with operations in Maharashtra, Gujarat, Chhattisgarh, Madhya Pradesh, Rajasthan, Andhra Pradesh, Tamil Nadu and Kerala. Recently, the company started exporting steel products to neighbouring countries.

Key financial indicators (audited)

SIPL	FY2021	FY2022
Operating income	540.5	581.4
PAT	6.9	5.5
OPBDIT/OI	1.9%	1.4%
PAT/OI	1.3%	0.9%
Total outside liabilities/Tangible net worth (times)	1.3	1.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	20.8	9.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 14, 2022	Sep 27, 2021	-	-
1	**Long Term / Short Term - Unallocated**	Long term / Short term	50.00	-	**[ICRA]BB+ (Stable) / [ICRA]A4+**	[ICRA]BB+ (Stable) / [ICRA]A4+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term - Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term / Short Term - Unallocated**	NA	NA	NA	50.00	[ICRA]BB+ (Stable) / [ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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