June 30, 2023

Standard Retail Private Limited: Ratings reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term - Interchangeable^	(16.00)	(16.00)	[ICRA]BBB-; reaffirmed and outlook revised to Negative from Stable
Short-term - Interchangeable^	(15.00)	(50.00)	[ICRA]A3; reaffirmed
Short-term - Non-Fund Based	250.00	220.00	[ICRA]A3; reaffirmed
Long-term/Short-term - Unallocated	-	30.00	[ICRA]BBB-/[ICRA]A3; reaffirmed and outlook revised to Negative from Stable
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-I; ^sublimit of non-fund-based limits*

Rationale

The revision in the long-term rating outlook of Standard Retail Private Limited (SRPL) factors in its significant pending overdue receivables, which in the event of non-realisation, would exert pressure on its liquidity and financial risk profile in FY2024. As on February 28, 2023, the company had overdue receivables of ~Rs. 46 crore outstanding for more than 90 days (constituting 59% of the total debtors), of which ~Rs. 24-crore receivables have been overdue for more than 180 days. The ratings also consider weaker-than-expected performance of SRPL in FY2022 and FY2023 due to a large provision for bad debts and unfavourable operating environment post the imposition of export duty on steel products. Amid limited trading opportunities in FY2023, the operating margins remained thin, which led to a moderation in the credit metrics. While the operating conditions have improved in YTD FY2024, with SRPL generating sales of around Rs. 75 crore till June 15, 2023, the company's ability to register healthy revenue growth and profitability and realising customer payments on time remains a key monitorable.

Besides intense competition in the business, SRPL's OPM remains exposed to price risks, given the cyclicality inherent in the steel industry. SRPL also remains exposed to foreign exchange (forex) rate fluctuation on account of its imports, though the risk is partly mitigated as the company enters into forward contracts to hedge its exposure.

Nevertheless, the ratings continue to favourably factor in SRPL's established relationships with reputed suppliers, which ensure regular supply of traded steel at competitive prices. The ratings derive comfort from the extensive experience of the promoters in the steel trading business. ICRA also notes that the wide product range offered by the company reduces its dependence on a single end-user segment.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoter – SRPL is a part of the Standard Group and commenced operations in November 2013 by taking over the trading operations of its Group companies, Standard Galva Steels Private Limited and Standard Conduits Private Limited. The company is promoted by Mr. Nikunj Turakhia, who has over 30 years of experience in the metal trading business. He is also the President of Steel Users Federation of India (SUFI).

Diverse product offerings – SRPL's trading portfolio is diverse, including colour-coated sheets, pre-painted galvanized iron sheets, pre-painted galvalume steel sheets, hot-rolled coils, cold-rolled coils, tinplate coils, aluminum sheets, wire rods, among others. The wide product range offered by the company reduces dependence on a single end-user segment.

Established relationships with reputed suppliers – SRPL has developed a strong relationship with its domestic and overseas suppliers, which ensures regular supply of traded steel at competitive prices.

Credit challenges

Exposure to counterparty credit risks – SRPL's overdue receivables for more than 90 days stood at around Rs. 46 crore as on February 28, 2023 (constituting 59% of total receivables), of which, ~Rs. 24 crore has been overdue for more than 180 days. Also, around Rs. 38 crore is receivable from two customers. While the company has obtained decree against some of the overdue customers, timely recovery of the same remains critical from the credit perspective. Non-recovery of receivables could lead to write-offs and impact the profitability and liquidity position, going forward.

Vulnerability of cash flows to cyclicality in steel sector, thin profit margins – SRPL is exposed to price risks, given the inherent cyclicality in the steel industry. In FY2023, SRPL reported revenues of Rs. 314 crore (as per provisional estimates), reflecting a YoY decline of 41%. The revenue fall was on account of unfavourable operating environment post the imposition of export duty on steel products by the Government of India in May 2022. The price risks are accentuated by the freehold nature of the inventory maintained by the company. However, ICRA notes that SRPL has reduced its inventory level in the last two fiscals, which minimises price risks. SRPL's profit margins remained thin at around 2% in FY2023 (as per provisional estimates), given the limited value addition and intensely competitive nature of the business. Lower revenues and thin profit margins led to a moderation in the credit metrics in FY2023.

Exposure to foreign exchange fluctuations – Imports accounted for 35% of SRPL's total procurement in FY2023, while the company reported negligible exports during the period. In the absence of a natural hedge, SRPL remains exposed to foreign exchange rate fluctuations, though the risk is partly mitigated as the company enters into forward contracts to hedge its exposure.

Liquidity position: Adequate

Despite a decline in revenues and profitability in FY2023, SRPL's liquidity position is currently **adequate** as it does not have any term loan repayment obligation and any major capital expenditure (capex) plans, going forward. The company's fund-based limits of Rs. 16 crore (with adequate drawing power) generally remain unutilised and acts as a cushion to the liquidity. The company's utilisation of non-fund-based limit remained moderate with an average utilisation of 38% during the 15-month period ended in March 2023. The company has sizeable letter of credit (LC) repayments of Rs. 56 crore in June 2023, Rs. 48 crore in August 2023 and Rs. 20 crore in October 2023. These are expected to be paid via recovery of receivables. Also, demonstrated ability of the promoters to bring in funds in case of a cash-flow mismatch, provide cushion to the liquidity. The company's overdue receivables of more than 90 days stood high at around Rs. 46 crore as on February 28, 2023. Timely recovery of the same remains critical from the credit perspective.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade looks unlikely. However, the outlook can be revised to Stable if the company is able to register a significant growth in its revenues and profitability while improving its liquidity position, leading to a sustained improvement in its overall financial profile.

Negative factors – Pressure on SRPL's ratings may arise if the company is unable to recover its overdue receivables in a timely manner, which adversely impacts the liquidity position. The ratings could also be downgraded in case of continued pressure on SRPL's credit metrics on account of subdued revenues and/or the profitability growth. Specific triggers which may result in ratings downgrade include the company's interest coverage ratio remaining below 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SRPL trades in various steel products including colour-coated sheets, pre-painted galvanised iron sheets, pre-painted galvalume steel sheets, hot-rolled coils, cold-rolled coils, tinplate coils, aluminium sheets, wire rods, among others. The company is promoted by Mr. Nikunj Turakhia, who has over 30 years of experience in the metal trading business. SRPL is a part of the Standard Group of Companies and commenced operations in November 2013.

Key Financial Indicators (Audited)

Standalone	FY2021	FY2022
Operating Income	466.3	535.5
PAT	3.3	5.2
OPBDIT/OI	2.6%	2.6%
PAT/OI	0.7%	1.0%
Total Outside liabilities/Tangible Net Worth (times)	1.5	1.3
Total Debt/OPBDIT (times)	3.2	3.1
Interest Coverage (times)	0.9	2.1

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

Status of non-cooperation with previous CRA:

SRPL did not provide requisite information to Acuité Ratings and Research needed to conduct its surveillance rating process and was therefore classified as 'Issuer not-cooperating'. Based on the best available information with the credit rating agency, Acuité has revised the ratings to 'ACUITE BB+/ACUITE A4+ (Issuer Not Cooperating) for Rs. 50-crore bank facilities of SRPL on December 09, 2022.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Jun 30, 2023	-	Mar 03, 2022	Apr 15, 2021	Jun 09, 2020
1	**Fund-Based Interchangeable Limits**	Long term	(16.00) *	-	**[ICRA]BBB- (Negative)**	-	**[ICRA]BBB- (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Negative)**
2	**Fund-Based Interchangeable Limits**	Short term	(50.00) *	-	**[ICRA]A3**	-	**[ICRA]A3**	**[ICRA]A4+**	**[ICRA]A4+**
3	**Non-fund Based Letter of Credit**	Short term	220.00	-	**[ICRA]A3**	-	**[ICRA]A3**	**[ICRA]A4+**	**[ICRA]A4+**

4	**Unallocated Limits**	Long-term/ short-term	30.00	-	**[ICRA]BBB- (Negative) /[ICRA]A3**	-	-	-	-

**Sub-limit of non-fund-based facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Interchangeable Limits	Simple
Short-term – Fund-based Interchangeable Limits	Simple
Short-term – Non-fund Based Limits	Very Simple
Long-term/Short-term – Unallocated Limits	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	(16.00)*	[ICRA]BBB-(Negative)
NA	**Packing Credit**	-	-	-	(50.00)*	[ICRA]A3
NA	**Letter of Credit**	-	-	-	220.00	[ICRA]A3
NA	**Unallocated**	-	-	-	30.00	[ICRA]BBB-(Negative)/[ICRA]A3

*Source: Company; *Sublimit of letter of credit*

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

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