

## Purva Metal Sections Pvt Ltd

September 18, 2018

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based facilities	28.00	[ICRA]BBB-(Stable); assigned
<b>Total</b>	<b>28.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 28.00-crore long-term fund-based facilities of Purva Metal Sections Pvt Ltd (PMSPL). The outlook on the long-term rating is Stable.

### Rationale

While arriving at the rating, ICRA has considered the consolidated operational and financial profile of PMSPL with its group company – Shiva Ferric Private Limited (SFPL), hereafter referred to as Group, as there are significant operational and financial linkages among these companies.

The assigned rating considers the long experience of the promoters in the iron and steel trading business, their authorised distributorship status with three large steel players namely TATA Steel Limited (TATA), Steel Authority of India Limited (SAIL) and Rashtriya Ispat Nigam Limited (RINL). The rating derives comfort from the wide iron and steel product portfolio in the trading segment and their business diversification into manufacturing of electric resistance-welded (ERW) pipes and tubes since FY2015. The rating also considers the Group's healthy revenue growth and improved profit margins in FY2017 and FY2018, the comfortable capital structure with a gearing of 0.79 times as on March 31, 2018 with no external long-term debt, and healthy debt-coverage metrics.

The rating, however, is constrained by the exposure of the Group's revenue to cyclicity in the steel industry which in turn is susceptible to cyclicity in the end-user industries, especially construction and automobiles. The profit margins are also exposed to adverse movement in the raw material prices given its limited pricing flexibility in the intensely competitive ERW pipe segment, and inventory risk in the trading segment. Furthermore, the rating is constrained by the Group's high working capital intensity led by stretched receivables, resulting in high utilisation of the working capital borrowings. The revenues are also exposed to high geographic concentration risk with presence only in Karnataka region.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that the Group will continue to benefit from the extensive experience of promoters in iron and steel trading business and from the favourable demand outlook in steel industry in the next twelve to eighteen months. The outlook might be revised to Positive if there is significant growth in operating income (OI) and profitability, while maintaining the capital structure at comfortable levels. The outlook might be revised to Negative if cash accruals are lower than expected or if there is deterioration in working capital cycle or increase in debt levels, leading to weakening of the liquidity position.

## Key rating drivers

### Credit strengths

**Long track record of promoters in iron and steel trading business** – The promoters - Mr. Shiv Kumar Purva, Chairman and Managing Director and his sons Mr. Lalith Kumar Purva, Mr Dhanesh Kumar Purva and Mr Surya Prakash Purva have more than two decades of experience in the iron and steel trading business. Though SFPL was incorporated in 2003, it was in existence since 1993 in the form of a proprietary concern under the name – Shiva Steels.

**Multi-authorised distributorship status** – In the trading business, the Group has authorised distributorship of TATA, SAIL and RINL in the state of Karnataka. While with SAIL and RINL it has more than 10 years of relationship, TATA distributorship has been acquired around five years back. The multi-distributorship status provides the Group competitive edge compared to other trading players who mostly have single-distributorship.

**Wide product portfolio** – The trading business includes a host of iron and steel products such as hot-rolled coils (HRC) and sheets, cold-rolled coils (CRC) and sheets, and structural steel products like angles, channels, beams, t-angles, TMT bars, among others. The Group had diversified its business into manufacturing of ERW pipes and tubes in FY2015 and currently, around 70% of the Group's revenues are derived from trading business and the rest of it are derived from the manufacturing business.

**Healthy revenue growth and improved margins** - The Group achieved healthy revenue growth of 21% in FY2017 and 24% in FY2018, primarily driven by healthy volume growth in the manufacturing business which had commenced commercial production in FY2015. The Group's operating profit margins were 6.42% in FY2017 and 6.31% in FY2018 improved from 2.31% in FY2016 primarily driven by cost rationalisation steps taken by the management in reducing the transportation and handling cost in the trading segment, besides earning higher volume-based discount income from its suppliers.

**Comfortable capital structure and coverage indicators** – The Group's capital structure was comfortable with a gearing of 0.79 times as on March 31, 2018 with no external long-term debt. The debt-profile included working capital borrowings and promoter's loan of Rs 13.90 crore as on March 31, 2018. In the absence of any long-term loan and with improved profit margins, the interest coverage ratio and debt-service coverage ratios were comfortable.

### Credit challenges

**Revenues exposed to cyclicity in the steel industry** – The Group's revenues from trading business was negatively impacted by the weak demand for steel products that prevailed in FY2016 and FY2017 where the trading business witnessed a revenue de-growth of 8% in FY2016 and a muted growth of 2% in FY2017. With improved demand for steel products in H2FY2018, the trading revenues grew at a healthy rate of 19% in FY2018.

**Margins exposed to adverse movement in raw material prices and inventory risk** – The profit margins are susceptible to fluctuation in HRC coils, the major raw material in manufacturing ERW pipes as the Group has limited pricing flexibility in the intensely competitive ERW pipe segment. Further, with a stock and sell model in trading business, the Group's margin is exposed to inventory risk.

**Intense competition in the ERW pipe segment** – While the Group has a competitive advantage in the trading business with multi-authorised distributorship status, it faces stiff competition in the ERW pipe segment from two established brands – ‘APL Apollo’ and ‘Jindal’ apart from numerous small and medium sized players in this segment.

**High geographic concentration risk** – With the Group catering to the demand of Karnataka region, especially Bangalore, the revenues are exposed to high geographic concentration risks.

**High working capital intensity** – There was a sharp increase in the working capital intensity in the trading business due to stretched receivables. The working capital intensity in the manufacturing business was also high in FY2018, though improved from FY2017’s level. The increased working capital intensity was funded by enhanced working capital limits from banks.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Entities in the Ferrous Metals Industry](#)

[Financial Consolidation and Rating Approach](#)

## About the company

Incorporated in 2000, PMSPL is engaged in manufacturing high frequency induction welded steel pipes i.e., ERW pipes and tubes. It has a capacity to manufacture 175,000 MTPA of ERW pipes and tubes, recently enhanced in April 2018 from 100,000 MTPA. Though the company was incorporated in 2000, the commercial production was commenced recently in FY2014. Its manufacturing facility is in Malur near Bangalore, Karnataka. The company was promoted by Mr. Shiv Kumar Purva, the Chairman and Managing Director, who is also the promoter of SFPL, which is engaged in trading of a host of iron and steel products namely HRC, CRC, and other structural steel products like angles, channels, beams, t-angles, TMT bars etc.

In FY2018, on provisional basis, PMSPL reported a net profit of Rs. 3.36 crore on an OI of Rs. 141.33 crore compared to a net profit of Rs. 2.14 crore on an OI of Rs. 115.04 crore in the previous year.

In FY2018, on provisional basis, the Group’s net profit was Rs. 13.88 crore on an OI of Rs. 446.01 crore compared to a net profit of Rs. 11.37 crore on an OI of Rs. 358.67 crore in the previous year.

## Key financial indicators - PMSPL

	FY2017	FY2018(Provisional)
Operating Income (Rs. crore)	115.04	141.33
PAT (Rs. crore)	2.14	3.36
OPBDIT/ OI (%)	6.01%	7.86%
RoCE (%)	7.64%	11.54%
Total Debt/ TNW (times)	1.39	1.09
Total Debt/ OPBDIT (times)	6.26	3.37
Interest Coverage (times)	3.49	3.03

OI: Operating Income; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Net Worth

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount	Amount	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
		Rated (Rs. crore)	Outstanding (Rs. crore)				
1	Cash credit	28.00	-	Sep 2018 [ICRA]BBB-(Stable)	-	-	-
	Long term						

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA <i>Source: PMSPL</i>	Cash credit	-	-	-	28.00	[ICRA]BBB-(Stable)

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