

## Standard Retail Private Limited

December 31, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based	(10.00)^	(10.00)^	[ICRA]BBB reaffirmed; outlook revised to Stable from Positive
Short Term Non-Fund Based	375.00	375.00	[ICRA]A3+ reaffirmed
Short Term Interchangeable	(205.00)^	(205.00)^	[ICRA]A3+ reaffirmed
Short Term Unallocated	-	50.00	[ICRA]A3+ reaffirmed
<b>Total</b>	<b>375.00</b>	<b>425.00</b>	

\*Instrument details are provided in Annexure-1; ^Sub-limit of non-fund based facility

### Rationale

The revision in outlook reflects ICRA's expectation that SRPL's profitability is likely to remain lower than the earlier estimates which, in turn, would result in weaker-than-anticipated coverage indicators. During H1 FY2019, sharp rupee depreciation resulted in forex losses of Rs. 1.8 crore and tightening of credit terms offered to customers led to a 7% de-growth in sales volumes. Contraction in SRPL's operating margin led to deterioration in coverage indicators, with interest coverage declining to 1.1 in H1 FY2019 from 1.5 in FY2018. The total-outside-liability-to-total-net-worth also remained high at 3.8 times as on September 30, 2018. Despite an expected improvement in profitability in H2 FY2019 following increased cheaper import opportunities, the same would remain lower than ICRA's earlier estimates. The ratings are also constrained by the vulnerability of SRPL's margins to price risks given the cyclical nature inherent in the steel industry. Imports accounted for 12% of the company's total procurement in H1 FY2019, and its share is likely to increase in H2 FY2019 following the recent correction in international steel prices, which has made imports cheaper than domestic steel prices. Given the increasing share of imports in overall procurement, SRPL also remains exposed to forex risks in the absence of a firm hedging policy. Nevertheless, ICRA notes that export sales of SRPL in the current year would partly mitigate forex risks by way of a natural hedge.

The ratings continue to favourably factor in SRPL's strong market position in the steel-trading business along with its established relationship with reputed suppliers, which ensures regular supply of traded steel at discounted prices. ICRA also notes that the wide product range offered by the company reduces its dependence on a single sector. SRPL reported 71% revenue growth in FY2018 supported by rise in traded volumes and improved realisation. The uptrend in steel prices resulted in a further 7% (annualised) growth in top-line in H1 FY2019. ICRA also notes that the sharp reduction in receivables following tightening of credit terms offered to its customers resulted in a shorter working-capital cycle. Aided by a reduction in debtors from 72 days as on March 31, 2017 to 25 days as on September 30, 2018, its working capital intensity (net working capital as a percentage of total operating income) declined from 33.1% to 19.1% during this period. Going forward, SRPL's ability to maintain its working capital cycle while scaling up its business would remain a key rating sensitivity.

## Outlook: Stable

ICRA believes that SRPL will continue to benefit from the extensive experience of its promoters in the steel trading business and the company's established relationship with its suppliers which ensures regular supply of traded steel. The outlook may be revised to 'Positive' in case of a substantial improvement in profitability and debt-protection metrics. The outlook may be revised to 'Negative' if a reversal in industry conditions leads to contraction in revenues and profitability.

## Key rating drivers

### Credit strengths

**Healthy scale of operations** - SRPL reported a 71% growth in operating income from Rs. 852 crore in FY2017 to Rs. 1,453 crore in FY2018 supported by rise in trading volumes from 186,089 metric tonne (MT) to 296,728 MT during this period. This was driven by improved demand from auto and white goods industries. While the trading volumes declined by 7% in H1 FY2019 owing to tightening of credit terms offered to its customers, the revenues increased by 7% (annualised) to Rs. 774 crore supported by better realisations (Rs. 56,002 per MT in H1 FY2019 against Rs. 48,922 per MT in FY2018). Going forward, ICRA expects SRPL's revenue growth to be driven by rise in sales volumes as steel prices are likely to decline from H1 FY2019 levels in line with international trends.

**Steady improvement in working capital cycle** - The company's debtor days declined from 72 days as on March 31, 2017 to 36 days as on March 31, 2018 resulting in decline in working capital intensity from 33.1% to 21.3% during this period. The debtor days declined further to 25 days as on September 30, 2018. The decline in debtor days was driven by the tightening of credit terms offered to its customers. The credit period has reduced significantly from 60-90 days to 15-30 days. While inventory holding remained in the range of 45-50 days, the improvement in receivable management has led to lower working capital cycle.

**Diverse product offering** - SRPL's trading portfolio includes colour-coated sheets, hot-rolled coils, cold-rolled coils, galvanised sheets, tinplate coils, aluminium sheets, wire rods etc. The wide product range offered by the company reduces the dependence on a single sector.

**Extensive experience of promoters** - SRPL is a part of the Standard Group and it 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's promoters have close to 30 years of experience in the steel-trading business. SRPL also has long relationship with its domestic and overseas suppliers, ensuring regular supply of raw materials at discounted prices.

### Credit challenges

**Modest profitability** - SRPL's profitability at operating and net levels have remained modest on account of limited value addition and intensely competitive nature of the steel trading business. Since the past two fiscals, the company has been pursuing aggressive pricing strategy to push sales. This is evident from the increase in cost of procurement as a percentage of total sales from 95.2% in FY2017 to 95.9% in FY2018 and further to 96.9% in H1 FY2019. Consequently, the operating margin declined from 2.4% in FY2017 to 2.1% and 1.5% in FY2018 and H1 FY2019 respectively. SRPL's profitability in H1 FY2019 was also impacted due to forex losses of Rs. 1.8 crore following sharp rupee depreciation. While expected increase in cheaper imports in H2 FY2019 would support the profitability, the same would remain lower than ICRA's earlier estimates.

**Weak coverage indicators** - Weaker-than-anticipated profitability coupled with increased interest expense led to a decline in interest coverage ratio from 1.5 times in FY2018 to 1.1 times in H1 FY2019. The total-outside-liability-to-total-net-worth also remained high at 3.8 times as on September 30, 2018.

**Exposure to price fluctuations** - The company's trading portfolio includes various flat steel products, the prices of which have remained volatile in the past given the cyclical nature inherent in steel industry. However, the company's opportunistic shift between imports and domestic procurements depending upon the market conditions provides some comfort.

**Exposure to forex risks** - Imports accounted for 12% of SRPL's total procurement in H1 FY2019 and are likely to increase in H2 FY2019. As against that, exports contributed 6% to its revenues during H1 FY2019. In the absence of a firm hedging policy, the company's operations remain exposed to forex risks to the extent of any mismatch between its imports and exports.

## Liquidity Position

SRPL does not have any term loan repayment obligation. The company's liquidity profile remained adequate with unutilised fund based limits of Rs. 10 crore and unencumbered cash balance of Rs. 2.1 crore as on March 31, 2018. The company's non-fund based limit utilisation remained high with average utilisation of 86% during the 15-month period ending November 2018.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Trading Companies</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

## About the company:

Standard Retail Private Limited (SRPL) trades in a wide range of steel products like colour-coated sheets, hot-rolled coils, cold-rolled coils, galvanised sheets, tinsplate coils, aluminium sheets, wire rods etc. The company is promoted by Mr. Nikunj Turakhia, who has about 30 years of experience in metal-trading business. SRPL is a part of the Standard Group of Companies and commenced operations in November 2013 by taking over the trading operations of Standard Galva Steels Private Limited and Standard Conduits Private Limited.

In FY2018, the company reported a net profit of Rs. 7.5 crore on an operating income of Rs. 1453.4 crore. During H1 FY2019, on a provisional basis, it reported a profit before tax of Rs. 2.7 crore on an operating income of Rs. 774.2 crore.

## Key Financial Indicators

Consolidated financials*	FY2018	H1 FY2019 (P)
Operating Income (Rs. crore)	1453.4	774.2
PAT (Rs. crore)	7.5	2.7 <sup>^</sup>
OPBDIT/ OI (%)	2.1%	1.5%
RoCE (%)	8.7%	7.3%
Total Debt/ TNW (times)	3.4	3.4
Total Debt/ OPBDIT (times)	9.7	11.8

Interest coverage (times)	1.5	1.1
NWC/ OI (%)	21.3%	19.1%

*P – Provisional; ^Profit Before Tax; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: SRPL*

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

### Any other information: None

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2018	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in	
					FY2018 Oct 2017	FY2018 Sep 2017	FY2017 Aug 2016	FY2016 Jul 2015	
1 Fund-based limits	Long Term	(10.00)*	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 Short term non-fund based limits	Short Term	375.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	
3 Short term interchangeable	Short Term	(205.00)*	-	[ICRA]A3+	[ICRA]A3+	-	-	-	
4 Short term unallocated	Short Term	50.00	-	[ICRA]A3+	-	-	-	-	

\*Sub-limit of non-fund based facilities

### 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	Cash credit	-	-	-	(10.00) <sup>#</sup>	[ICRA]BBB (Stable)
NA	Letter of credit	-	-	-	375.00	[ICRA]A3+
NA	EPC/FBP	-	-	-	(25.00) <sup>#</sup>	[ICRA]A3+
NA	Buyer's credit	-	-	-	(180.00) <sup>#</sup>	[ICRA]A3+
NA	Unallocated facility	-	-	-	50.00	[ICRA]A3+

<sup>#</sup>Sub-limit of non-fund based facilities; EPC - Export Packing Credit; FBP - Foreign Bill Purchase; Source: Standard Retail Private Limited

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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](http://www.icra.in)

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