

April 21, 2020

Hindustan Steel Corporation: [ICRA]B+(Stable)/A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based facility	16.00	[ICRA]B+ (Stable); assigned
Bank Guarantee	(5.00)	[ICRA]A4; assigned
Unallocated facility	1.50	[ICRA]B+ (Stable)/[ICRA]A4; assigned
Total	17.50	

*Instrument details are provided in Annexure-1

Rationale

The ratings favourably consider the extensive experience of Hindustan Steel Corporation's (HSC) promoters in the metal trading business. The ratings derive comfort from the fact that the firm is an authorised retailer of Rashtriya Ispat Nigam Limited (RINL/ Vizag Steel) for the Coimbatore region. The ratings are, however, constrained by HSC's thin profit margins due to the trading nature of business and intense competition in the Coimbatore region. The ratings factor in the susceptibility of its margins to price fluctuations, and inherent cyclicity in the ferrous metal industry. The ratings note the firm's leveraged capital structure as reflected by its TOL/TNW of 5.7 times as on March 31, 2019. ICRA also takes note of the risks of capital continuity associated with proprietorship firms.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that HSC will continue to benefit from the extensive experience of the promoters in the metals trading business and the established relationship with its key principal, Vizag Steel.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in metal trading business – The promoters have an experience of more than four decades in the steel trading business through the Group company, Hindustan Hardwares, which was established in 1979. This has enabled the promoters to establish strong relationship with the principal, Vizag Steel.

Authorised retailer of Vizag Steel in Coimbatore – The firm is an authorised retailer of Vizag Steel for the Coimbatore region, which has wide acceptability in the market. Moreover, the Group has a long-term association with Vizag Steel spanning more than 20 years.

Credit challenges

Thin margins and intense competition – HSC's trading nature of business puts pressure on its profitability, as evident from its operating margin of 1.3% in FY2019. The firm's profit margin tends to be constrained by intense competition in the Coimbatore region and the trading nature of its business.

Leveraged capital structure – The firm's capital structure has stretched with increase in debt levels and capital withdrawals as witnessed from its gearing of 4.5 times and TOL/TNW of 5.7 times as on March 31, 2019 compared to 2.0

times and 2.9 times as on March 31, 2018, respectively. HSC's capital structure and liquidity position are exposed to the risks arising from the proprietorship nature of the entity.

Cyclical nature of ferrous metal industry – With steel demand likely to remain subdued in FY2021 due to stalling of the construction/infrastructure activities in Q1 FY2021, the firm's revenue and cash accruals are exposed to the cyclical nature of ferrous metal industry and dip in economic activity in Coimbatore.

Liquidity position: Stretched

HSC's liquidity is **stretched** given the limited buffer available in the drawing power. However, ICRA takes note of the cushion available in the firm's sanctioned working capital limits. Its liquidity has been impacted by the capital withdrawals in the past. The liquidity position is likely to be affected in the near-term due to economic downturn and the current lockdown situation.

Rating sensitivities

Positive triggers – ICRA could upgrade HSC's rating if the firm demonstrates a sustained growth in its net worth base resulting in improvement in its capital structure with TD/OPBDITA improving to below 4 times on a sustained basis.

Negative triggers – ICRA could downgrade HSC's rating if there is any strain on its capital structure or liquidity profile due to increase in working capital requirements, lower cash accruals or further withdrawal of capital.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for trading companies
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

Hindustan Steel Corporation was incorporated as a proprietorship concern in 2014. The firm is involved in the trading of steel products, primarily TMT bars in the Coimbatore region. Other steel products such as steel sheets, etc, are sold on an albeit scale. The firm is one of the authorised retailers of Vizag Steel for Coimbatore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	67.5	131.7
PAT (Rs. crore)	1.4	1.2
OPBDIT/OI (%)	2.4%	1.3%
RoCE (%)	19.1%	15.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	5.7
Total Debt/OPBDIT (times)	4.8	7.5
Interest Coverage (times)	4.0	2.0
DSCR	4.7	2.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Rating (FY2020)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding as on January 31, 2020	Rating April 21, 2020	FY2019	FY2018	FY2017
1 Fund based	Long term	16.00	11.25	[ICRA]B+(Stable)	-	-	-
2 Bank Guarantee	Short term	(5.00)	-	[ICRA]A4	-	-	-
3 Unallocated facility	Long/Short term	1.50	-	[ICRA]B+(Stable) / [ICRA]A4	-	-	-

Amount in Rs. crore

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]B+(Stable)
NA	Channel finance	NA	NA	NA	6.00	[ICRA]B+(Stable)
NA	Bank Guarantee	NA	NA	NA	(5.00)	[ICRA]A4
NA	Unallocated facility	NA	NA	NA	1.50	[ICRA]B+(Stable)/ [ICRA]A4

Source: Hindustan Steel Corporation

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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