

Steel Infra Solutions Private Limited

February 21, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term proposed bank facilities	60.00	[ICRA]BBB- (Stable)/[ICRA]A3; Assigned
Total	60.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and a short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 60.00-crore¹ proposed bank facilities of Steel Infra Solutions Private Limited (SISCOL)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings favourably factor in the long track record of SISCOL's promoters and senior management team having rich experience and an established network in the steel and construction sectors. While the company lacks a track record as it is yet to commence operations, ICRA has drawn comfort from the fact that SISCOL is in the process of acquiring operational fabrication units having a demonstrated track record of profitability and locational benefits arising from its proximity to the source of key raw material viz. Steel. Yet, successful transition of operations under the new management team remains to be seen.

While assigning the ratings, ICRA has also taken into consideration lack of firm order book at present, company's proposed moderate scale of operations to start with, which are to be scaled up gradually as well as competitive pressures owing to the fragmented nature of the domestic fabrication market. In light of this, favourable demand potential for fabricated steel structures driven by investment in infrastructure in the domestic market provides comfort. Further, the company's plans to offer end-to-end solutions are expected to support the extent of value addition and service-based differentiation in a fragmented market. Nevertheless, ICRA notes that company's strategy for catering to the needs of infrastructure projects may expose it to project risk, which in turn could impact its business performance and cash flows.

The assigned ratings also derive comfort from the fact that ~97% of promoters' committed contribution has already been infused in the company, which along with presence of reputed investors and low reliance on term debt, reduces financing risks. Nevertheless, tie-up of adequate working-capital debt as well as term debt at favourable terms and in a timely manner remains crucial for a quick ramp up of SISCOL's operations.

In ICRA's view, the company's ability to build-up order-book to achieve revenue visibility, and scale-up operations while reporting healthy profitability and effectively controlling working-capital requirements, would be the key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

The stable outlook reflects ICRA's expectation that SISCOL will be able to complete the acquisition of its target plants in the near term and continue to report profitable operations as they have been reporting under the current owners. The outlook may be revised to 'Positive' if there is a track record of sustained improvement in order-book, revenues and profitability, thereby improving the scale of operations and financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or a higher-than-expected debt-funded capital expenditure is incurred, or the liquidity weakens on account of working-capital requirements being significantly higher than envisaged.

Key rating drivers

Credit strengths

Long track record of promoters and senior management team - SISCOL has been formed by three professionals, each having more than three decades of relevant work experience in steel/ structural steel, construction and project management segments, in the domestic as well as international markets. Having operated in the industry for a fairly long time, the promoters have established a strong network with suppliers and customers, which is expected to help the company scale up in a cost-efficient manner. Further, the company has also appointed several experienced professionals in key managerial positions across divisions.

Operational tie-ups with reputed companies across the value chain – SISCOL has entered into Memorandums of Understanding (MOUs) with Singapore-based Yongnam Engineering and Construction Private Limited (YEC), Hyderabad-based Power Mech Projects Limited³ (Power Mech), US-based TRC Worldwide and Bengaluru-based Atelier D Arts & Architecture Private Limited, for technical as well as operational collaboration. These operational tie-ups are expected to help the company strengthen its presence across the value-chain, while enhancing its ability to win orders based on technical expertise.

Locational benefits, with proximity to source of key raw material, viz. steel

The manufacturing units being acquired by SISCOL are located in Bhilai in Chhattisgarh, in proximity to source of key raw material viz. steel. The plants are located at a distance of ~15 km from SAIL's Bhilai plant and within a radius of ~300-400 km from several other steel plants. Given the bulky nature of products, proximity to source of raw material will enable the company to bring down transportation costs, thereby supporting profitability.

Favourable demand prospects for heavy steel structurals, given the focus on infrastructure creation

Demand prospects for steel structurals in India are favourable with increasing focus on their use across segments such as building construction, roads, bridges, ports and airports. Nevertheless the company, under the new management, is yet to establish itself as a reliable solution-provider to these sectors.

Asset-light nature of operations and proposed inventory management policies, likely to keep reliance on debt low

While the fabrication business is less capital intensive, it is typically characterized by high working-capital requirements for raw material storage and processing. Nevertheless, the company's proposed inventory management policies as per which raw material for project execution will be supplied by the customers, are likely to keep its working capital requirements relatively low, in turn limiting the reliance on debt. This would also protect the company against adverse fluctuations in raw material prices.

³ ICRA has [ICRA]A-(Stable) and [ICRA]A2+ ratings outstanding for the bank facilities of Power Mech Projects Limited. For further details, please refer to ICRA's website – www.icra.in.

Credit challenges

Financing risk as debt is yet to be tied up – SISCOL's estimated project cost of Rs. 45 crore for the first phase is being funded using a favourable capital structure with a project gearing of 0.50 times (considering interest-bearing unsecured loans from promoters as debt). While ~97% of the promoters' committed contribution has already been infused, the company is yet to tie up term debt for part funding the project cost as well as working capital debt required for operational scale-up. Tie-up of adequate working-capital debt as well as term debt at favourable terms and in a timely manner remains crucial for a quick ramp up of SISCOL's operations.

Exposure to project risks – Company intends to focus on providing end-to-end solutions to infrastructure projects such as airports, high-rise buildings, five-star hotels and complex bridge structures. In ICRA's view, this may expose the company to project risks, which in turn could impact its business performance and cash flows.

Intense competitive pressures; focus on value-added offerings and favourable demand scenario, however, provides comfort – Given the marginal capital investment requirements and low technical complexity, the steel-fabrication industry is highly fragmented characterised by presence of a large number of unorganised players. Further, there are organised domestic players as well as international suppliers that work in joint venture with domestic companies or as sub-contractors for large companies that pose stiff competition. Nevertheless, promoters' established network, the company's proposed tie-ups with reputed players across the value chain, focus on providing end-to-end solutions and focus on high-end fabrication, mitigate the market risks to an extent. Further, favourable demand scenario, particularly for organized players that can cater to large infrastructural projects, provides comfort.

Vulnerability of profitability to any adverse fluctuation in raw-material prices given the working-capital intensive nature of operations; though proposed business model would mitigate the risk to an extent The main raw material for steel fabrication is hot rolled (HR) plates and few other structural items like, angle, channel, beam, joist, rod etc. as required by the specifications of orders. While some contracts would have price-variation clause, there would be some under fixed price mechanism. The company, however, proposes to enter into delivery-based model for most contracts, wherein project execution would be separated from material delivery and hence the company would not be significantly exposed to raw-material procurement risk. The company's ability to do so in a competitive scenario would be crucial for its profitability and hence would be a key rating sensitivity.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in October 2017, Steel Infra Solutions Private Limited (SISCOL) aims to provide end-to-end infrastructural solutions in the heavy structural steel segment. The company has been promoted by a group of experienced professionals from the Indian steel and construction sectors, comprising Mr. Ravi Kant Uppal, Mr. K. Rajagopal and Mr. Niladri Sarkar who have a long track record and experience in steel and construction sectors. While ~30% stake in the entity is held by the promoter group, the balance ~70% is held by associates and investors such as venture capital funds.

The company is primarily focusing on an inorganic route initially and is in the process of acquiring two operational fabrication units for heavy steel structurals in Bhilai (Chhattisgarh). The company has also entered into Memorandum of Understanding (MOUs) with Singapore-based Yongnam Engineering and Construction Private Limited (YEC), Hyderabad-based Power Mech Projects Limited (Power Mech), US-based TRC Worldwide and Bengaluru-based Atelier D Arts & Architecture Private Limited, for technical as well as operational collaborations. Besides supply of in-house fabricated structural steel, scope of work for SISCOIL in a project would include design, engineering, logistics, erection at site and complete project management.

Key financial indicators: Not applicable (Company is yet to commence operations)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
					Date & Rating		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	FY2018 Feb 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Proposed bank facilities	Long-term/ Short-term	60.00	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-
Total		60.00					

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
N/A	Proposed Bank Facilities	N/A	N/A	N/A	60.00	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Steel Infra Solutions Private Limited

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