March 03, 2022

Standard Retail Private Limited: Ratings upgraded to [ICRA]BBB-(Stable)/[ICRA]A3

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-(Stable); Upgraded from [ICRA]BB+(Stable)
Short-term – Interchangeable^	(15.00)	(15.00)	[ICRA]A3; Upgraded from [ICRA]A4+
Short-term Non-fund Based	250.00	250.00	[ICRA]A3; Upgraded from [ICRA]A4+
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-1; ^sublimit of non-fund-based limits*

Rationale

The ratings upgrade factors in ICRA's expectations that the financial profile of Standard Retail Private Limited (SRPL) would continue to improve in the near-to-medium term, supported by the management's increased focus on value-added better-margin products. Since FY2022, the company has also tightened its credit period and has been undertaking remunerative transactions only. Coupled with the inventory gains in H1 FY2022, this led to an improvement in the operating profit margin (OPM). Faster collections enabled the company to prepay its letter of credit (LC) obligations, leading to savings in interest costs and improvement in the overall financial profile. The ratings continue to favourably factor in SRPL's established relationships with reputed suppliers, which ensure regular supply of traded steel at discounted prices. The ratings also 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.

The ratings are, however, constrained by the thin OPM (although improved) of SRPL owing to limited value addition and intense competition in the business. SRPL's OPM also remains exposed to price risks given the cyclicality inherent in the steel industry, though ICRA notes that the management has reduced its inventory holding since H2 FY2021. In addition, SRPL is yet to recover pending receivables worth Rs. 24.1 crore (constituting 36% of the total receivables), which are overdue for more than 180 days as on December 31, 2021, though ICRA notes that SRPL has obtained decree against some overdue customers. SRPL also remains exposed to foreign exchange rate fluctuation on account of its imports, though the risk is partly mitigated as the company enters into forward contracts to hedge its exposure.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SRPL will continue to benefit from the extensive experience of its promoters and favourable demand conditions in the ferrous metals industry.

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 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 galvanised iron sheets, pre-painted galvalume steel sheets, hot-rolled coils, cold-rolled coils, tinplate coils, aluminium sheets, wire rods, among others. The wide product range offered by the company reduces dependence on a single end-user segment. In FY2022, the company diversified into manufacturing value-added better-margin products like structures and purlin sections required in the solar industry.

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 discounted prices.

Improved financial profile – The company's financial profile has improved in FY2022 on the back of the management's focus on value-added better-margin products as well as tightened credit terms with customers. The same is evident from an improved OPM of 5.3% in 9M FY2022 (based on provisional estimates) compared to 2.6% in FY2021. While the high OPM in 9M FY2022 is partly attributable to inventory gains in H1 FY2022 and elevated steel realisations, the same is expected to moderate, going forward. Nevertheless, the OPM will remain higher than the historical levels (prior to FY2022) owing to increased focus on better-margin products. Faster collections enabled the company to prepay its LC obligations, leading to savings in interest costs and improvement in the overall financial profile, as reflected by an interest cover of 4.1 times in 9M FY2022 (based on provisional estimates) compared to 0.9 times in FY2021.

Credit challenges

Thin profit margins – Although SRPL's OPM improved in FY2022, it continues to remain thin, given the limited value addition and intensely competitive nature of the business.

Vulnerability of cash flows to cyclicality in steel sector – SRPL is exposed to price risks, given the inherent cyclicality in the steel industry. 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 levels since H2 FY2021, which minimises price risks.

Exposure to counterparty credit risks – SRPL is yet to recover pending receivables of Rs. 24.1 crore (constituting 36% of total receivables), which are overdue for more than 180 days as on December 31, 2021. Out of the said amount, Rs. 15.9 crore is receivable from a single customer. However, ICRA notes that the company has obtained decree against some of these overdue customers.

Exposure to foreign exchange fluctuations – Imports accounted for 30% of SRPL's total procurement in FY2021, while it reported negligible exports during the period. While the company did not enter into import and export transactions in FY2022 given the limited remunerative opportunities, it intends to import certain products, going forward. Thus, SRPL will remain 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

SRPL's liquidity position is **adequate,** supported by improved working capital cycle owing to faster collection of receivables, negligible term loan repayment obligations and minimal capital expenditure requirements. Improved working capital cycle has translated into low LC utilisation, which averaged 36% during the 12-month period ended in December 2021 (compared to 57% during the 12-month period ended in December 2020). Although there are elongated receivables of Rs. 24.1 crore outstanding for more than 180 days as on December 31, 2021, low interest-bearing unsecured loans provided by the promoters and related parties worth Rs. 36.0 crore (of which, ~Rs. 20 crore was infused in FY2021) support the liquidity position of the company. Also, demonstrated ability of the promoters to bring in funds in case of a cash-flow mismatch, provide cushion to the liquidity.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant improvement in sales volumes and profitability of SRPL, leading to a sustained improvement in its overall financial profile and liquidity position. Specific triggers which may lead to ratings upgrade include the company's interest coverage ratio remaining above 3.5 times on a sustained basis.

Negative factors – Pressure on SRPL's ratings may arise in case of a sharp decline in revenues and/or profit margins, resulting in a sustained deterioration in its financial risk profile and liquidity position. 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 a wide range of 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 metal trading business. SRPL is a part of the Standard Group of Companies and commenced operations in November 2013.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Operating Income (Rs. crore)	970.2	466.3	400.7
PAT (Rs. crore)	2.6	3.3	12.1
OPBDIT/OI (%)	2.6%	2.6%	5.3%
PAT/OI (%)	0.3%	0.7%	3.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	1.5	-
Total Debt/OPBDIT (times)	1.4	3.2	1.5
Interest Coverage (times)	1.0	0.9	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: SRPL, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					03-Mar-2022	15-Apr-2021	09-Jun-2020	03-Oct-2019	31-Dec-2018
1	Fund-Based Interchangeable Limits	Long-term	(16.00)*	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	-
2	Fund-Based Interchangeable Limits	Short-term	(15.00)*	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+
3	Non-fund Based Letter of Credit	Short-term	250.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+

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

Complexity level of the rated instrument

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

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, is available on ICRA's 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
NA	Cash Credit	-	-	-	(16.00)*	[ICRA]BBB-(Stable)
NA	Packing Credit	-	-	-	(15.00)*	[ICRA]A3
NA	Letter of Credit	-	-	-	250.00	[ICRA]A3

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

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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

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