

March 30, 2023

SM Corporation Ltd.: [ICRA]BB (Stable)/ [ICRA]A4; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Cash Credit	20.00	[ICRA]BB (Stable); assigned
Long-term Electronic Dealer Finance	45.00	
Short-term Short Term Loans	15.00	[ICRA]A4; assigned
Short-term Bank Guarantee	(5.00)	
Total	80.00	

*Instrument details are provided in Annexure-1

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of the operational and financial profiles of SM Corporation Limited (SML), SM Engineers India Limited (SEIL) and Victory Consultants Private Limited (VCPL), herein referred to as the SM Group, given the operational, financial and managerial linkages among the entities.

The ratings assigned to SML factor in the experience of the promoters in the steel trading business spanning over two decades and their diverse business interests. The ratings also consider the long relationship of SML with its principal, Tata Steel Limited (TSL), and its wide presence in north eastern India with a network of over 350 dealers. The ratings also take into account the significant top line growth of ~45% registered by the Group in FY2022, aided by a surge in volumes as well as realisations. The top line growth is likely to moderate to ~10% in FY2023.

The ratings, however, remain constrained by the low margin due to the trading nature of operations and intense competition in the fragmented steel trading business. The ratings are also impacted by the liquidity issues arising from the inventory built-up in relation to the engineering, procurement, construction (EPC) segment of the company. Further, high reliance on working capital borrowings and unsecured loans affected the capital structure of the company. ICRA notes that SML is exposed to the cyclical nature associated with the steel industry, which can lead to volatility in its profitability and cash flows.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SML will continue to maintain its business position and profitability.

Key rating drivers and their description

Credit strengths

Long track record of promoters in steel trading business – The promoters of SML are involved in trading of steel products for over two decades. Long experience of the promoters and established relationship with dealers help it maintain a strong position in the north eastern states in the steel trading business. Extensive experience of the promoters in the industry also mitigates the operational risk to an extent. The promoters also have diverse business interests in steel, met coke, educational institution, real estate etc.

Authorised distributor for TSL's Tiscon brand in north eastern states – In 2000, SML became the authorised distributor of Tata Steel Limited (TSL), for its Tiscon TMT bars, pipes and other products in the north-eastern states of India except Manipur

and Nagaland. Over the years, the company has built a strong network of over 350 dealers. Long relationship with TSL and the company's status as the sole distributor demonstrate the principal's confidence in SML.

Credit challenges

Low operating margin due to trading nature of operations and competitive nature of the industry – The operating margin of the company is inherently low due to the nature of the industry in which it operates, which is characterised by intense competition among dealers/ distributors in a high volume, low margin business. SML registered an operating margin of 2.9% in FY2022 (3.5% in FY2021).

Liquidity issues arising from delay in execution and build-up of inventory in relation to the EPC project – The company's work-in-progress (WIP) inventory has remained high over the years as it is yet to book sizeable revenue from the ongoing EPC project as clearances from the customer are pending. The WIP inventory stood at Rs. 45.3 crore as on March 31, 2022 vis-à-vis Rs. 51.6 crore as on March 31, 2021. This has constrained the liquidity of the company.

Weak financial profile characterised by a leveraged capital structure – SML's capital structure remains leveraged due to its high reliance on working capital borrowings and unsecured loans from promoters, notwithstanding the gradual improvement witnessed in the recent years. The gearing improved to 2 times as on March 31, 2022 from 3.7 times as on March 31, 2019, aided by an equity infusion of Rs. 8.5 crore during the period. The promoters have infused fresh equity of Rs. 8 crore in the current fiscal, which is likely to lead to a further improvement in the capital structure of the company.

Cyclicality inherent in the industry – SML's product portfolio predominantly includes Tata Tiscon TMT bars the demand of which exhibits cyclicality inherent in the steel industry. This may lead to volatility in revenue and cash flows of the players in the industry, including SML.

Liquidity position: Stretched

The liquidity of the company is expected to remain stretched. The cash flow from operations stood negative at Rs. 9.2 crore in FY2022 vis-à-vis Rs. 6.2 crore in FY2021 due to an increase in the working capital requirement. The average fund-based working has remained high in the 12 months ended in February 2023, leaving the company with limited buffer. The repayment obligations stand at Rs. 0.9 crore, Rs. 1.2 crore and Rs. 1.2 crore in FY2024, FY2025 and FY2026, respectively. Nonetheless, lack of major capex plans in the near-to-medium term and the demonstrated ability of the promoters to bring in unsecured loans/equity as and when needed provide some comfort to the liquidity position of the company.

Rating sensitivities

Positive factors – ICRA may upgrade SML's ratings if there is a sustained improvement in the liquidity and debt protection metrics of the company.

Negative factors – Pressure on SML's ratings may arise if there is a decline in scale, accruals or debt protection metrics of the company. The ratings may also be downgraded if there is any delay in the liquidation of the work-in-progress inventory pertaining to the EPC segment, leading to a further deterioration in the company's liquidity. Specific metrics that could lead to ratings downgrade include an interest coverage of less than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of SML.

About the company

SM Corporation Ltd. (SML), incorporated in 1981, is the sole distributor of TSL's TMT bars, pipes, agricultural implements etc. in North East India, except Manipur and Nagaland. The company obtained distributorship of Tata Steel Limited in 2000. SML has a network of over 350 dealers across North East India, of which around 60% are exclusive dealers. The company is also involved in the EPC business and has a construction contract from Military Engineering Services.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2021	FY2022	FY2021	FY2022
Operating income (Rs. crore)	506.1	732.8	507.0	732.8
PAT (Rs. crore)	4.7	7.0	4.7	6.9
OPBDIT/OI	3.5%	2.9%	3.5%	2.9%
PAT/OI	0.9%	1.0%	0.9%	0.9%
Total outside liabilities/Tangible net worth (times)	3.0	2.5	3.4	2.9
Total debt/OPBDIT (times)	5.2	4.4	5.9	5.0
Interest coverage (times)	1.8	2.3	1.9	2.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

Name of the CRA	Date of Press Release	Rating Action
CRISIL	March 27, 2023	CRISIL B (Stable)/ CRISIL A4 ISSUER NOT COOPERATING; downgraded and retained in INC Category

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				March 30, 2023	--	--	--	
1	Cash Credit	Long-term	20.00	--	[ICRA]BB (Stable)	--	--	--
2	Electronic Dealer Finance	Long-term	45.00	--	[ICRA]BB (Stable)	--	--	--
3	Short Term Loans	Short-term	15.00	--	[ICRA]A4	--	--	--
4	Interchangeable Limit	Short-term	(5.00)	--	[ICRA]A4	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Electronic Dealer Finance	Simple
Short Term Loans	Simple
Bank Guarantee	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
--	Cash Credit	NA	NA	NA	20.00	[ICRA]BB (Stable)
--	Electronic Dealer Finance	NA	NA	NA	45.00	[ICRA]BB (Stable)
--	Short Term Loans	NA	NA	NA	15.00	[ICRA]A4
--	Bank Guarantee	NA	NA	NA	(5.00)	[ICRA]A4

Source: SML

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SM Engineers India Limited	96%	Full Consolidation
Victory Consultants Private Limited	100%	Full Consolidation

Source: SML

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