

June 28, 2024

## SM Corporation Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term cash credit	20.00	20.00	[ICRA]BB (Stable); reaffirmed
Long-term electronic dealer finance	45.00	45.00	[ICRA]BB (Stable); reaffirmed
Short-term loans	15.00	15.00	[ICRA]A4; reaffirmed
Short-term bank guarantee	(5.00)	(5.00)	[ICRA]A4; reaffirmed
<b>Total</b>	<b>80.00</b>	<b>80.00</b>	

\*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 reaffirmation factors in the extensive experience of the promoters in the steel trading business spanning over two decades and their diverse business interests. The ratings also consider the long-standing relationship of SML with its principal, Tata Steel Limited (TSL), and its wide presence in northeastern India with a network of over 350 dealers.

The ratings are, however, constrained by the company's thin profit margins due to the trading nature of the business, intense competition and the susceptibility of its operating margins to fluctuations in steel prices. The interest coverage remained moderate at 2.4 times in FY2023 and is likely to be around ~3.0 times in FY2024 on the back of an estimated increase in revenues and operating profit. While the company had free cash of Rs. 6.5 crore as of March 2024, there is limited cushion in the its fund-based working capital utilisation. Going forward, the company's ability to enhance its working capital limits with the growth in the scale of operations will be critical. The interest coverage is also expected to remain moderate.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that SML will continue to maintain its business position and benefit from its relationship with TSL, resulting in comfortable cash accruals to meet the debt servicing.

### Key rating drivers and their description

#### Credit Strengths

**Long track record of promoters in steel trading business** – The promoters of SML are involved in the trading of steel products for over two decades. The long experience of the promoters and their established relationship with dealers has helped the company maintain a strong position in the steel trading business in the northeastern states. The 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 the North East** – In 2000, SML became the authorised distributor of Tata Steel Limited (TSL), for its Tiscon TMT bars, pipes and other products in the northeastern states of India, except Manipur and Nagaland. Over the years, the company has built a strong network of over 350 dealers. The long relationship with TSL and the company's status as the sole distributor demonstrate the principal's confidence in SML.

### Credit Challenges

**Leveraged capital structure and moderate coverage indicators** – SML’s capital structure remains leveraged, despite the gradual improvement in recent years, due to its high reliance on working capital borrowings and the unsecured loans from promoters. The interest coverage remained moderate at 2.4 times in FY2023 and is likely to be around ~3.0 times in FY2024 on the back of an estimated increase in revenues and operating profit. Further, there is limited cushion in the company’s fund-based working capital utilisation. Going forward, the company’s ability to enhance its working capital limits with the growth in the scale of operations will be critical. The interest coverage is also expected to remain moderate.

**Low operating margin due to trading nature of operations and a competitive industry** – The operating margin of the company is inherently low due to the nature of the industry in which it operates, characterised by intense competition among the dealers/distributors in a high-volume, low-margin business. SML registered an operating margin of ~3% in FY2024 (2.6% in FY2023).

**Cyclicality inherent in the industry** – SML’s product portfolio predominantly includes Tata Tiscon TMT bars, the demand for which is susceptible to the cyclicality inherent in the steel industry. This may lead to volatility in the revenue and cash flow of the players in the industry, including SML.

### Liquidity – Stretched

The liquidity of the company is expected to remain stretched. The cash flow from operations is estimated to be negative at ~Rs. 7-8 crore in FY2024 owing to the high working capital requirements in the business. The company has limited cushion in its fund-based working capital utilisation. Hence, its ability to enhance its working capital limits with the growth in scale of operations will be critical.

### 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 the company’s scale, accruals or debt protection metrics. 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 for downgrade include an interest coverage of less than 2 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of SML as mentioned in Annexure II

### 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 the distributor rights 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 Engineer Services.

### Key financial indicators (audited)

	Standalone			Consolidated	
	FY2022	FY2023	FY2024	FY2022	FY2023
Operating income (Rs. crore)	732.8	818.3	876.6	732.8	818.3
PAT (Rs. crore)	7.0	6.7	11.7	6.9	6.6
OPBDIT/OI	2.9%	2.6%	3.1%	2.9%	2.6%
PAT/OI	1.0%	0.8%	1.3%	0.9%	0.8%
Total outside liabilities/Tangible net worth (times)	2.5	2.2	1.8	2.9	2.2
Total debt/OPBDIT (times)	4.4	4.4	3.9	5.0	4.5
Interest coverage (times)	2.3	2.4	2.9	2.3	2.4

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	May 09, 2024	CRISIL B (Stable)/ CRISIL A4 ISSUER NOT COOPERATING; reaffirmed and retained in INC category

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 28, 2024	-	March 30, 2023	--
1 Cash credit	Long-term	20.00	--	[ICRA]BB (Stable)	--	[ICRA]BB (Stable)	--
2 Electronic dealer finance	Long-term	45.00	--	[ICRA]BB (Stable)	--	[ICRA]BB (Stable)	--
3 Short-term loans	Short-term	15.00	--	[ICRA]A4	--	[ICRA]A4	--
4 Interchangeable limit	Short-term	(5.00)	--	[ICRA]A4	--	[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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