



Press Release

Z.V. Steels Private Limited

March 29, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	48.00	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Assigned	Simple
Total	48.00 (Rupees forty eight crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Z.V. Steels Private Limited (ZVSPL) derives strength from long track record of operations coupled with experienced management and established relationships with reputed suppliers. The rating also factors in its efficient working capital management, strong debt coverage and adequate liquidity. These strengths are partially offset by thin profitability margins and intense competition and inherent cyclical nature of steel industry.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of operations with improvement in profitability and cash accruals
- Improvement in the capital structure and debt protection metrics on a sustained basis
- Managing working capital requirement efficiently leading to improvement in the operating cycle with improvement in liquidity.

Downward Factors

- Decline in the revenue and/ or profits leading to an overall deterioration in the financial risk profile of the company
- Moderation in the capital structure and/ or coverage indicators
- Elongation in the operating cycle with moderation in liquidity

List of Key Rating Drivers with Detailed Description



Press Release

Key Rating Strengths

- **Long track record of operations coupled with experienced management**

Incorporated in 1997, Z.V. Steels Private Limited has a long operational track record of more than two decades in the iron and steel industry. Further, the key promoter, Mr. Riyaz Lokhandwala, has five decades of experience in the industry. In addition to this the second-generation director of the company, Mr. Zameer Lokhandwala also has an experience of fifteen years of industry experience. The experience of the management, their strong understanding of local market dynamics, and healthy relations with suppliers and customers will benefit the company going forward, resulting in steady growth in the scale of operations.

- **Established relationships with reputed suppliers**

Z.V. Steels Private Limited has developed a strong relationship with its suppliers, which ensures regular supply of traded steel at discounted price. The major supplier of the firm are JSW Steel, JSW Steel Coated and Arcelor Mittal. The revenue of the company witnessed a CAGR growth of ~32% to Rs. 487.61 Cr in FY2023 from Rs.279 Cr in FY2021 on account of increase in the sales volume. Further, the company has already achieved a revenue of Rs.579.77 Cr in 11MFY2024.

- **Efficient working capital management**

The working capital management of the company is efficient marked by the comfortable operating cycle, which stood at 65 days as on 31st March 2023 as compared to 69 days as on 31st March 2022. The operating cycle is predominantly driven by the low debtor and inventory level during the same period. The debtor period stood at 42 days as on 31st March 2023 as compared to 49 days in 31st March 2022. Further, the inventory holding stood at 27 days as on 31st March 2023 similar to 31st March 2022. The working capital management of the company will remain at similar levels over the medium term owing to the nature of the industry.

- **Moderate financial risk profile**

The moderate financial risk profile of the company is marked by moderately leveraged capital structure. The tangible net worth including quasi equity of the company increased to Rs.39.05 Cr as on March 31, 2023, from Rs.34.65 Cr as on March 31, 2022 due to accretion of reserves. The unsecured loan of Rs.9 Cr has been considered as quasi equity as the same has been subordinated to bank's exposure. Gearing on tangible net worth including quasi equity of the



Press Release

company stood moderate at 1.73x times as on March 31, 2023, as against 1.32x as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (including Quasi Equity) stood high at 1.83x as on March 31, 2023, as against 1.74x as on March 31, 2022. The debt protection metrics of the company stood comfortable marked by Interest Coverage Ratio at 2.13x as on March 31, 2023, and Debt Service Coverage Ratio at 1.90x as on March 31, 2023. The total debt/EBITDA stood high at 6.12x as on March 31, 2023. The financial risk profile of the company will remain at similar level backed by steady accruals and no major debt funded capex plans in the medium term.

Key Rating Weaknesses

- **Thin profitability margin buoyed by decline in the steel prices**

The EBITDA margin of the company remained thin primarily attributable to low value additive trading nature of the business. Furthermore, the EBITDA margin has declined from ~3.42% in FY2022 to ~2.27% in FY2023 mainly due to lower average sales realisation which was driven by a sharp fall in the prices of steel in the fiscal year. Further, the PAT margin of the company decreased to 0.90% in FY2023 from 1.70% in FY2022. Going forward, the improvement in the profitability margins of the firm will be a key rating monitorable.

- **Intense competition and inherent cyclical nature of steel industry**

The firm is exposed to intense competition in the steel sector due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the firm's business risk profile is exposed to the inherent cyclicity in these sectors.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

The liquidity position of the company is adequate. The gross cash accruals stood at Rs.4.49 Cr as on March 31, 2023 as against no such long term debt repayment for the same period.



Press Release

The cash and bank balances of the company stood at Rs.0.18 Cr as on March 31, 2023. Further, the current ratio stood comfortable at 1.59x as on March 31, 2023 and the Quick Ratio stood moderate at 1.07x as on March 31, 2023. The average fund-based limit utilisation remains moderate at around 74 per cent over the twelve months ended February 2024. Going forward, the company is likely to maintain adequate liquidity position supported by steady accruals.

About the Company

Z V Steels Private Limited was incorporated in August 1997 as a private limited company named Z V Steel Trader Private Limited. Later in November 1997, it was renamed as Z V Steels Private Limited. The company trades in flat steel products, namely cold rolled close annealed (CRCA), galvanized plain (GP), hot rolled (HR), and cold rolled (CR) sheets/coils. ZVSPL is an authorized distributor of JSW Steel. ZVSPL's registered office is in Mumbai and its warehouse facility is in Navi Mumbai.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	358.75	487.61
EBITDA	12.25	11.07
PAT	6.11	4.40
Total Debt	48.95	73.01
Adjusted Tangible Net worth	34.65	39.05
EBITDA Margin (%)	3.42	2.27
PAT Margin (%)	1.70	0.90
Overall Gearing Ratio on Net Adjusted Tangible Net Worth (x)	1.54	1.94

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: NA

Rating History for last three years:



Press Release

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	30.00*	IVR BBB-/ Stable	-	-	-
2.	Working Capital Loan	Long Term	18.00**	IVR BBB-/ Stable	-	-	-

*Usance LC of Rs.30 Cr, Sight LC of Rs.30 Cr, Bill Discounting of Rs. 25 Cr, WCDL of Rs. 25 Cr and Bank Guarantee of Rs.10 Cr is a sublimit of the Cash Credit limit.

**Amended limit of Overdraft of Rs. 18 Cr, Working capital loan of Rs. 18 Cr, Import Line of Rs. 18 Cr, Import documentary credit facility of Rs. 18 Cr, Post shipment buyer loan of Rs. 18 Cr and Pre shipment buyer loan of Rs. 18 Cr.

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Press Release

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	30.00*	IVR BBB-/ Stable
Working Capital Loan	-	-	-	18.00**	IVR BBB-/ Stable

*Usance LC of Rs.30 Cr, Sight LC of Rs.30 Cr, Bill Discounting of Rs. 25 Cr, WCDL of Rs. 25 Cr and Bank Guarantee of Rs.10 Cr is a sublimit of the Cash Credit limit.

**Amended limit of Overdraft of Rs. 18 Cr, Working capital loan of Rs. 18 Cr, Import Line of Rs. 18 Cr, Import documentary credit facility of Rs. 18 Cr, Post shipment buyer loan of Rs. 18 Cr and Pre shipment buyer loan of Rs. 18 Cr.

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-ZVSteels-mar24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.