DMSONS Metals Private Limited

October 21, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	2.00	IVR BBB/Stable [IVR Triple B with stable outlook]	IVR BBB/Stable [IVR Triple B with stable outlook]	Reaffirmed	Simple
Short Term Bank Facilities	152.00	IVR A3+ [IVR A Three Plus]	IVR A3+ [IVR A Three Plus]	Reaffirmed	Simple
Total	**154.00**	**[One hundred fifty-four crores only]**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its rating assigned to the bank facilities for the long-term facilities to IVR BBB with stable outlook and IVR A3+ for the short-term facilities of DMSONS Metals Private Limited (DMSONS).

The rating continues to draw comfort from experienced promoters along with established track record of operations, growing scale of operations albeit thin profitability coupled with moderate credit risk profile. However, these rating strengths are partially offset by working capital intensive nature of operations and profitability exposed to foreign exchange fluctuations. Further the company is also exposed to vulnerability to fluctuations in input prices and fragmented and competitive industry.

The outlook stood 'stable' on account of increasing scale of operations and running order book position. IVR believes the firm will continue to benefit from its operational track record in the business resulting in increased scale of operations.

Infomerics Ratings has principally relied on the standalone audited financial results of DMSONS up to 31 March 2024 (refers to period April 1st, 2023, to March 31st, 2024) and projected financials for FY2025 (refers to period April 1st, 2024, to March 31st, 2025) - FY2027 (refers to period April 1st, 2026, to March 31st, 2027), and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Sustained increase in scale of operations with improvement in profitability.
- Sustenance of working capital cycle and improvement in financial risk profile specific credit metrics that could improve the ratings will be total debt to NCA below 5x on sustained basis.

Downward Factors

- Substantial decline in revenue and profitability.
- Further deterioration in capital structure and debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters with established track record in the business**

The promoters of the company, Mr Deepak Mehta and Mr. Pranit Mehta have been engaged in the steel products business for last six decades. Backed by their long presence, they have established relationships with key customers and suppliers, which has supported the business risk profile of the company. They have successful operational track record and have established healthy relationship with the customers as it has been getting regular repeat orders from its clients.

- **Moderate capital structure and debt protection metrics**

The capital structure of the company stood comfortable marked by overall gearing of 1.00x as on March 31, 2024, deteriorated from 0.67x as on March 31, 2023, on account of increase in total debt. The TOL/TNW stood at 1.38x as on March 31, 2024, deteriorated from 1.04x as on March 31, 2023, on account of increase in creditors. The debt protection metrics of the company stood comfortable marked by DCSR of 1.54x in FY24 although deteriorated from 2.13x as on March 31, 2023, on account of decline in profitability. The ICR stood at 1.57x as on March 31, 2024, compared to 2.35x as on March 31, 2023, on account of decline in profitability and increase in interest and finance cost. The total debt to GCA stood high at 14.28x as on March 31, 2024, deteriorated from 6.41x as on March 31, 2023, on account of increase in total debt along with decline in GCA.

- **Growing scale of operations albeit low profitability**

The total operating income of the company has grown at (CAGR) of 30.49% during the past three years ended as on March 31, 2024. Further, the TOI of the company has improved marginally by 1.65% in FY24 and stood at Rs. 578.79 crore compared to Rs. 569.39 crore in FY23 on account of increase in trading volume of its products, although the average realization has declined during the years. The EBITDA margin of the company declined marginally by 29 bps and stood at 3.48 % in FY24 compared to 3.76% in FY23 on account of increase in manufacturing expenses. Subsequently, the PAT margin of the company also declined by 43 bps and stood thin at 1.26% in FY24 compared to 1.69% in FY23 on account of decline in operational profit along with increase in interest and finance cost. The GCA stood at Rs. 7.83 crore in FY24 declined from Rs. 11.22 crore in FY23 on account of decline in profitability.

Key Rating Weaknesses

- **Vulnerability to fluctuations in input prices; fragmented and competitive industry**

The steel industry in India is characterised by intense competition and fragmentation, with the presence of many units, because of low entry barriers. This restricts the ability of players to pass on any increase in the raw material prices to customers. Therefore, any sharp increase in input prices is likely to have a significant impact on the profitability of the companies operating in the sector.

- **Profitability exposed to foreign exchange fluctuations**

The company's operations remain exposed to fluctuations in foreign currency rates as the company imports significant amount of raw material from foreign market and since the company doesn't indulge in exports it doesn't gain the advantage of natural hedging. However, the Company has a pre-defined hedging mechanism to a certain extent to mitigate the risk.

- **Cyclicality inherent in the metal industry which is expected to keep company's cash flows volatile**

Demand for steel products is sensitive to trends of industries, such as automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry generally witness steep decline in demand, leading to decrease in demand of steel products. The cyclicity is expected to remain going forward which might hamper the cash flows of the company. However, the company's opportunistic shift between imports and domestic procurement/sales depending upon the market conditions provides some comfort.

- **Working capital intensive nature of operations**

The Working capital cycle of the company is moderately intensive marked by Gross Current Assets days of 167 days in FY24 as against 138 days in FY23. It is driven by receivables and inventory period of 36 days and 86 days respectively in FY24.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company's liquidity is adequate marked by 30.40% consolidated average utilisation of fund-based limits during the past 12 months ended August 2024. Further, the company expects sufficient cushion in cash accruals against its debt repayments for the next 3 years. The company has a current ratio and quick ratio of 1.72x and 0.69x as of March 31, 2024, respectively. The unencumbered cash and bank balance of the company stood at Rs. 3.58 crores as on September 30, 2024. The working capital cycle of the company stood elongated at 97 days in FY24 deteriorated from 82 days in FY23 on account of increase in inventory holding period.

About the Company

The company was incorporated in 2007 by Mr. Deepak Mehta and has its registered office located in Mumbai, Maharashtra. The company is engaged in the trading of metal and steel plates. Its product portfolio includes high tensile steel plates, mild steel plates, boiler quality plates, wear-resistant steel plates, and many more. The company serves industry segments such as oil & gas, automobile, pressure vessels & boilers, and heavy engineering dimensions, among others. They have warehousing unit based at Taloja - Navi Mumbai which helps to stock nearly 20,000 to 25,000 metric ton of plates, coils, rounds, steel structural of different grades and thickness.

Financials [Standalone]: **(Rs. crore)**

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	569.39	578.79
EBITDA	21.42	20.12
PAT	9.64	7.34
Total Debt	71.90	111.90
Tangible Net Worth	112.36	118.57
EBITDA Margin (%)	3.76	3.48
PAT Margin (%)	1.69	1.26
Overall Gearing Ratio (x)(including quasi-equity)	0.67	1.00
Interest Coverage (x)	2.35	1.57

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Vide press release dated December 08, 2023, CRISIL Ratings Limited have kept the ratings under non-cooperation category on account of non-submission of relevant information.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					August 23, 2023	**May 24, 2022**	**-**
1.	Fund Based Limits	LT	2.00	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	-
2.	Non-Fund Based	ST	152.00	IVR A3+	IVR A3+	IVR A3+	-

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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.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Cash Credit	-	-	-	-	2.00	IVR BBB/Stable
Short Term Facility – Letter of credit	-	-	-	-	152.00	IVR A3+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-dmsons-oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis:

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.