DMSONS Metals Private Limited

August 23, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	2.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	152.00	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**154.00**	**Rupees One hundred fifty-four crore Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of DMSONS Metals Private Limited continue to draw comfort from experienced promoters with established track record in the business, growing scale of operations and moderate capital structure and debt protection metrics. However, these strengths are constrained by Low profitability indicated by lower operating profit margins, susceptibility of profitability to prices of traded products, presence in a fragmented industry structure with intense competition, profitability exposed to foreign exchange fluctuations, cyclicality inherent in metal industry which is expected to keep company's cash flows volatile and working capital intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.

- Any significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

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 company's tangible net worth remained strong at Rs 113.64 crore as on March 31, 2023, as against Rs 102.58 crore as on March 31, 2022, increased mainly on account of accretion of profits to reserves. The overall gearing of the company stood at 0.63x as on March 31, 2023, improved from 0.67x as on March 31, 2022. Total indebtedness of the company as reflected by TOL/TNW stood at 0.86x as on March 31, 2023, improved from 0.91x as on March 31, 2022. Moreover, the debt protection indicator of the company stood moderate with interest service coverage of 9.16x in FY23 as against 24.01x in FY22. Total debt to GCA stood moderate at 5.93x as on March 31, 2023, improved from 6.09x as on March 31, 2022

Key Rating Weaknesses

Low profitability indicated by lower operating profit margins albeit growing scale of operations

Total operating income (TOI) has increased by ~11.67% to Rs. 569.39 crore in FY2023 (Provisional) from Rs.509.90 crore in FY2022 on account of increase in sales volume of its traded products. With increase in scale of operation, the EBITDA margin of the company improved by 30 bps and stood at 4.30% in FY23 as against 4.00% in FY22 mainly on account of higher margin earned on traded goods. Despite improvement in EBITDA margins, PAT margin declined by 76 bps and stood at 1.94% in FY23 as against 2.69% in FY22. The company has reported PAT of Rs. 11.06 crore in FY2023 (Provisional) as against Rs.13.80 crore in FY2022. Gross Cash accruals increased to Rs. 12.02 crore in FY23 as against Rs. 11.32 crore in FY22.The company has reported PAT of Rs. 4.04 crore on total operating income of Rs. 144.49 crore in Q1FY24 as against PAT of Rs.2.96 crore on total operating income of Rs. 125.04 crore in Q1FY23.

Susceptibility of profitability to prices of traded products

The operating margins of the company are affected by fluctuation in prices of traded products. The company faces price volatility both in the international market (on procurements) and domestic market (on sales). Any adverse movement in the price of traded products can have a negative impact on the company's margins. However, company's longstanding relationship with its suppliers allow company to get cushion against the risk to some extent.

Presence in a fragmented industry structure with intense competition

The company is engaged in trading business of various steel products which is highly competitive due to presence of many players owing to less product differentiation and low entry barriers. Presence of many players in the operating spectrum constrains the pricing flexibility of the company to a large extent.

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 mitigate the risk to some extent.

Cyclicality inherent in 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 101 days in FY23 as against 93 days in FY22. It is driven by receivables and inventory period of 37 days and 64 days respectively in FY23.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

Comments on liquidity:

The company's liquidity is adequate marked by 16.54% consolidated average utilisation of fund-based limits during the past 12 months ended June 2023. The consolidated average non-fund-based utilization stood at 84.65% for last 12 months ending July, 2023. 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 2.13x and 1.02x as of March 31, 2023, respectively. The Unencumbered cash and bank balance of the company stood at Rs.5.38 Crores as on March 31, 2023. The Working Capital Cycle of the company stood elongated at 85 days in FY23 deteriorated from 78 days in FY22 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):

For the year ended/As on*	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	509.90	569.39
EBITDA	20.41	24.48
PAT	13.80	11.06
Total Debt	68.96	71.24
Tangible Net Worth	102.58	113.64
Ratios		
EBITDA Margin (%)	4.00	4.30
PAT Margin (%)	2.69	1.94
Overall Gearing Ratio (x)	0.67	0.63

*Classification as per infomerics' standards

Status of non-cooperation with previous CRA: CRISIL Ratings has moved the rating of DMPL under the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated Oct 31, 2022.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (May 24, 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	2.00	IVR BBB/ Stable	IVR BBB/ Stable	-	--
2.	Letter of Credit	Short Term	152.00	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).

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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
Long Term Bank Facility-Cash Credit	-	-	-	2.00	IVR BBB/Stable
Short Term Bank Facility-Letter of Credit	-	-	-	152.00	IVR A3+

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-DMSONS-aug23.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.