



Press Release

Pioneer Steels

June 15, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.15	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Assigned	Simple
Total	50.15 (INR Fifty crore and fifteen lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Pioneer Steels derives strength from its long track record of operations and experienced partners, moderate capital structure and comfortable debt protection metrics, established relationships with reputed suppliers, and prudent working capital management. However, the ratings are constrained on account of its moderation in profitability in 9MFY23, presence in a fragmented industry structure with intense competition, cyclicity inherent in metal industry which is expected to keep firm's cash flows volatile, and risk inherent in partnership firm with instances of capital withdrawn.

Key Rating Sensitivities:

Upward Factors

- Significant improvement in scale of operations with improvement in profitability and cash accruals
- Improvement in capital structure and debt protection metrics

Downward Factors

- Moderation in scale of operation of the firm and/or moderation in profitability
- Moderation in capital structure and debt protection metrics
- Elongation in operating cycle impacting the liquidity



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of operations and experienced partners

Pioneer Steel was founded by Late Mr. R. Balakrishnan in the year 1958 in Coimbatore. In the year 1984, Pioneer Steel was reconstituted into a partnership firm with Mr. B Venkatesan as the Managing Partner who has over 40 years of experience in the iron and steel industry. The Firm has more than five decades of experience in the trading business of iron and steel products such as TMT Bar, Angles, Channels, HR Sheets, MS Plates, CR Sheets, Rounds, Squares, Flats, Round Pipes, Square Pipes, etc. across Tamil Nadu, Kerala, Karnataka and Andhra Pradesh. Long experience of Pioneer Steel partners and its established track record of operations strengthens the operational risk profile of the Firm.

Moderate capital structure and comfortable debt protection metrics

The financial risk profile of the firm remained moderate, marked by modest net worth base of Rs. 41.90 crore as on March 31, 2022 (Rs. 32.50 crore as on March 31, 2021). Total debt of the firm has increased from Rs. 25.90 crore as on March 31, 2021, to Rs 41.85 crore as on March 31, 2022, mainly due to increase in working capital limits and availment of term loan for purchase of solar module in order to setup the solar plant. The overall gearing ratio of the firm stood at 1.00x as on March 31, 2022 (0.80 times as on March 31, 2021). Total indebtedness of the firm as reflected by TOL/TNW stood at 1.30x as on March 31, 2022 (1.43 times as on March 31, 2021). The interest coverage ratio indicator stood comfortable at 9.80 times in FY2022 (4.49 times in FY21). The debt coverage indicators as depicted by Total Debt/EBITDA stood at 1.97 times in FY2022 (2.41 times in FY2021). DSCR stood comfortable at 7.24 times in FY2022 (3.23 times in FY21).

Established relationships with reputed suppliers

Pioneer Steel 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 Steel Authority of India and Rashtriya Ispat Nigam Limited.



Press Release

Prudent Working Capital Management

Operating cycle of the company remained comfortable at 35 days in FY2022. The operating cycle remained comfortable on account of low payable days (7 days) and receivable days (8 days) supported by moderate inventory days (35 days). The average working capital utilisation was moderate at ~73% during the last 12 months ending Jan 2023, which imparts sufficient liquidity buffer.

Key Rating Weaknesses

Moderation in profitability in 9MFY23

The EBIDTA margin of the firm remained thin primarily attributable to low value additive trading nature of the business. Though the EBITDA margin had improved from ~2.29% in FY21 to ~3.57% in FY22, it declined to 2.07% in 9MFY23. Further, the PAT margins declined from 1.69% in FY22 to 0.69% in 9MFY23. The profitability margins were majorly declined due to lower average realisation driven by a moderation in the market prices of steels along with increased overhead cost. The firm generated an EBITDA of Rs. 21.20 crore in FY22 and 9.39 crore in 9MFY23 respectively, and PAT of Rs. 10.04 crore in FY22 and Rs.3.12 crore in 9MFY23 respectively.

Presence in a fragmented industry structure with intense competition

The firm is engaged in trading business of various ferro-alloys 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 firm to a large extent.

Cyclicality inherent in metal industry which is expected to keep firm's cash flows volatile

The prospects of the alloy industry are strongly correlated and linked to the performance of the steel industry, since Ferro alloys are intermediaries for the steel industry. Demand for steel products is sensitive to trends of particular 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



Press Release

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 ferro-alloys. The cyclicity is expected to remain going forward which might hamper the cash flows of the firm.

Risk inherent in partnership firm with instances of capital withdrawn

Given the constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the inherent risk of dissolution of the firm upon death, retirement or insolvency of the partners.

Analytical Approach: Standalone

Applicable Criteria

[Rating Methodology for Trading Companies](#)

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

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient accruals with no term debt repayment obligation in the period FY23-FY25. Moreover, the group also has moderate gearing headroom on the back of its moderate capital structure. The average working capital utilisation was moderate at ~73% during the last 12 month ending Jan 2023, which imparts sufficient liquidity buffer.

About the Company

Pioneer Steel was founded by Late Mr. R. Balakrishnan in the year 1958 in Coimbatore. In the year 1984, Pioneer Steel was reconstituted into a partnership firm with Mr. B Venkatesan as the Managing Partner who has over 40 years of experience in the iron and steel industry. The Firm has more than five decades of experience in the trading business of iron and steel products such as TMT Bar, Angles, Channels, HR Sheets, MS Plates, CR Sheets, Rounds, Squares, Flats, Round Pipes, Square Pipes, etc. across Tamil Nadu, Kerala, Karnataka and Andhra Pradesh. Pioneer Steels is the district dealer of SAIL (Steel Authority of India Limited) and Rashtriya Ispat Nigam Limited (RINL). Pioneer group have diversified its wings to various



Press Release

sectors such as Textile mills, Agri, Windmills and Mobile Phone Distribution. The firm has entered into renewable energy segment by setting up a windmill division in the year 2009 in Dharapuram with an installed power generation capacity of 800 KW and a solar power plant in the year 2021 in Karur with an installed power generation capacity of 2MW in order to diversify its business profile.

Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31.03.2021	31.03.2022
	Audited	Audited
Total Income	468.40	593.95
EBIDTA	10.73	21.20
PAT	5.08	10.04
Total Debt	25.90	41.85
Tangible Net Worth	32.50	41.90
EBDITA Margin (%)	2.29	3.57
PAT Margin (%)	1.09	1.69
Overall Gearing Ratio (x)	0.80	1.00
Interest Coverage Ratio	4.49	9.80

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork migrated the rating of Pioneer Steels in the Issuer Non-Cooperating category as the issuer did not co-operate as per the Press Release dated June 08, 2023.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (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.	Term Loan	Long Term	4.20	IVR BBB- / Stable	-	-	-
2.	GECL	Long Term	3.95	IVR BBB- / Stable	-	-	-
3.	Cash Credit	Long Term	27.00	IVR BBB- / Stable	-	-	-



Press Release

Sr. No.	Name of Instrument/Facilities	Current Ratings (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
4.	Cash Credit (e-DFS)	Long Term	14.00	IVR BBB- / Stable	-	-	-
5.	Proposed Cash Credit (e-DFS)	Long Term	1.00	IVR BBB- / Stable	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Rajendra Kumar Behera	Name: Sandeep Khaitan
Tel: (033)- 46022266	Tel: (033)- 46022266
Email: rajendra.behera@infomerics.com	Email: sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any



Press Release

security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	FY2027	4.20	IVR BBB-/ Stable
GECL	-	-	FY2026	3.95	IVR BBB-/ Stable
Cash Credit	-	-	-	27.00	IVR BBB-/ Stable
Cash Credit (e-DFS)	-	-	-	14.00	IVR BBB-/ Stable
Proposed Cash Credit (e-DFS)	-	-	-	1.00	IVR BBB-/ Stable

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Pioneer-Steels-jun23.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.