



Press Release

Pioneer Steels

April 17, 2024

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	48.55 (reduced from Rs 50.15 crore)	IVR BB+/ Stable (IVR double B plus with stable outlook)	Downgraded from IVR BBB-/ Stable (IVR triple B minus with stable Outlook)	Simple
Total	48.55 (INR Forty- eight crore and fifty-five lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has downgraded the rating assigned to the bank facilities of Pioneer Steels considering consistent decline in profits during FY2023 and FY2024, and the company's inability to not meet the projections shared earlier for FY2023 and FY2024. However, the rating continues to derive comfort 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. These rating strengths continues to remain partially offset on account of 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 constitution of the entity as a partnership concern with inherent risk of withdrawal of capital.

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



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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.

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 and Kerala. 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. 51.65 crore as on March 31, 2023 (Rs. 41.99 crore as on March 31, 2022). Total debt of the firm increased to Rs. 54.99 crore as on March 31, 2023, from Rs. 41.85 crore as on March 31, 2022. The increase in total debt driven by increase in working capital utilization and availment of term loans to support the enhanced operations and increase in net worth was driven by accretion of reserves due to profits earned by the firm. As on March 31, 2024, total debt further increased to Rs 61.75 crore from Rs 54.99 crore, driven by increase in working capital limits. The tangible net worth of the firm increased to Rs. 54.32 crore as on March 31, 2024 up from Rs. 51.65 crore driven by accretion in reserves due to profits earned by the firm. Solvency indicators like overall gearing ratio witnessed moderation to 1.06x as on March 31, 2023, from 1x as on March 31, 2022, and further deterioration to 1.14x as on March 31, 2024 driven by increase in total debt. Total indebtedness as depicted by TOL/TNW although witnessed improvement to 1.26x as on March 31, 2023, from 1.30x as on March 31, 2022, it subsequently deteriorated to 1.44x as on March 31, 2024.



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- **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.

- **Prudent Working Capital Management**

Operating cycle enhanced to 43 days in FY23 from 35 days in FY22 and further enhanced to 56 days in FY24. The firm increased the credit period for its major customers and also high inventory levels resulted in elongation in operating cycle. However, average working capital utilisation of 12 months ending February-24 stood at ~72%, thus reflecting sufficient liquidity buffer.

Key Rating Weaknesses

- **Moderation in profitability in FY23 and FY24**

During FY23, EBITDA and PAT at absolute levels moderated by ~21% and ~38% respectively and stood at Rs 16.55 crore and Rs 6.26 crore respectively. The procurement was made by the firm on elevated prices. Post that, steel prices declined thus leading to inventory loss for the firm. Inventory loss that continued to sustain in FY24 coupled with reduction in sales volume due to supply constraints from SAIL along with moderation in sales realisation further prompted reduction in absolute EBITDA and PAT levels by ~29% and 57% respectively. FY24 absolute EBITDA and PAT stood at Rs 11.81 crore and Rs 2.68 crore respectively. EBITDA margin moderated by ~77 basis points and stood at 2.61% in FY23 (PY:3.38%), due to inventory loss. PAT margin further deteriorated to 1.03% in FY23 from 1.69% in FY22, driven by decline in EBITDA margins and increase in interest costs. Based on FY24, EBITDA margins further moderated to 2.15% due to inventory loss and lower absorption in fixed costs due to lower scale. PAT margins declined by 52 basis points and stood at 0.51% in FY24 in comparison to 1.03% in FY23.

- **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.



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- **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 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 cyclicality is expected to remain going forward which might hamper the cash flows of the firm.

- **Constitution of the entity as a partnership concern with inherent risk of withdrawal of capital**

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 of assigning rating outlook](#)

[Default Recognition Policy](#)

Liquidity – Adequate

The liquidity position of the firm is adequate marked by its expected gross cash accruals as against debt obligations from FY24-FY27. The bank limit utilization remains moderate at an average of around ~72% over the 12 months ended February 2024. Also, the current ratio stood moderate at 1.95 times and 1.44 times as on March 31,2024 (Audited) and March 31,2024 respectively.



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About the company

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Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	592.81	606.41
EBITDA	20.06	15.85
PAT	10.04	6.26
Total Debt	41.85	54.99
Tangible Net worth (including quasi equity)	41.99	51.65
EBITDA Margin (%)	3.38	2.61
PAT Margin (%)	1.69	1.03
Overall Gearing Ratio (x)	1.00	1.06

**As per Infomerics' Standards*

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the ratings of Pioneer Steels into the Issuer Non-Cooperating category on account of inadequate information and lack of management cooperation in the rating procedure despite repeated follow ups as per the Press Release dated June 08,2023



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Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (June 15, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1	Term Loan	Long Term	3.60	IVR BB+/ Stable	IVR BBB-/ Stable	-	-
2	GECL	Long Term	3.95	IVR BB+/ Stable	IVR BBB-/ Stable	-	-
3	Cash Credit	Long Term	27.00	IVR BB+/ Stable	IVR BBB-/ Stable	-	-
4	Cash Credit (e-DFS)	Long Term	14.00	IVR BB+/ Stable	IVR BBB-/ Stable	-	-
5	Proposed Cash Credit (e-DFS)	Long Term	-	-	IVR BBB-/ Stable	-	-

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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.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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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
Term Loan	-	-	FY28	3.60	IVR BB+/Stable
GECL	-	-	FY27	3.95	IVR BB+/Stable
Cash Credit	-	-	-	27.00	IVR BB+/Stable
Cash Credit (E-DFS)	-	-	-	14.00	IVR BB+/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-apr24.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