

Rating Advisory

February 10, 2023 | Mumbai

Sri Krishna Shipping Corporation

Update as on February 10, 2023

This rating advisory is provided in relation to the rating of Sri Krishna Shipping Corporation

The key rating sensitivity factors for the rating include:

Upward factors:

- Growth in revenue by over 25% and sustenance in margin above 4%, leading to higher cash accruals
- Better working capital management and improvement in financial risk profile, particularly liquidity

Downward factors:

- Further stretch in working capital cycle leading to GCAs of over 250 days
- Decline in scale of operations, with lower demand and market conditions

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Sri Krishna Shipping Corporation (SKSC) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If SKSC continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the firm

SKSC was set up in 1986, as a partnership firm between Mr. Y S V Rama Rao Chowdary and his family members. The Visakhapatnam-based firm trades in various steel products such as TMT bars, channels, angles, I-beams, billets, squares, blooms, and rounds.

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Rating Rationale

December 27, 2021 | Mumbai

Sri Krishna Shipping Corporation

Long-term rating upgraded to 'CRISIL B+ / Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.19 Crore
Long Term Rating	CRISIL B+/Stable (Upgraded from 'CRISIL B/Stable')
Short Term Rating	CRISIL A4 (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the long-term bank facilities of Sri Krishna Shipping Corporation (SKSC) to '**CRISIL B+/Stable**' from 'CRISIL B/Stable', while reaffirming the short-term rating at 'CRISIL A4'.

The upgrade reflects improvement in the firm's credit risk profile which is expected to be sustained over the medium term. The improvement stems from an improvement in operating performance. Revenues are expected to grow 52% to Rs.58-60 crore in fiscal 2022 resulting in larger cash accruals. The interest coverage ratio is estimated at 1.88 times for fiscal 2022; the ratio was 1.5 times in fiscal 2020. The net cash accruals to total debt ratio (NCATD) is estimated at 0.05 times in fiscal 2022 against 0.03 times a year ago.

The ratings continue to reflect the working capital-intensive operations, and small scale of operations amidst intense competition in the steel industry. The rating also factors in a low Cash/TOL ratio and subdued interest coverage. These rating weaknesses are partially offset by the extensive experience of SKSC's partners and a moderate TOLANW ratio.

Analytical Approach

Unsecured loan from partners of Rs 3.78 crore, outstanding as on March 31, 2021, have been treated as neither debt nor equity as they are expected to remain in the business over the medium term.

Key Rating Drivers & Detailed Description

Weaknesses:

- **Large working capital requirement:** Operations are highly working capital intensive, as reflected gross current assets (GCAs) of 306 days as on March 31, 2021, similar to levels seen in the past. This is mainly driven by large inventory and receivables of 100-110 days and 100 days, respectively.
- **Small scale of operations in the intensely competitive steel industry:** Intense competition in the steel industry restricts scalability and profitability of players. SKSC thus operates on a small scale, as reflected in operating income of Rs 38.30 crore reported for fiscal 2021.
- **Low Cash/TOL ratio and subdued interest coverage:** SKS has low cash/TOL these were at 2% as on March 31, 2021. Also, it has subdued interest coverage of 1.6 times in fiscal 2021. Further due to its low profitability and high dependency on debt to fund its working capital requirement, both Cash/ TOL and interest coverage are expected to similar level over medium term.

Strengths:

- **Extensive experience of the partners:** Mr. Y Rama Rao Choudary, his wife, Mrs. Y Adilakshmi, and his sons Mr. Y Venkateswara Rao and Mr. Y Rayudu are partners in the firm. SKSC earlier undertook material-handling works of RINL and SAIL in Visakhapatnam. Over the years, the management has developed strong relationships with its major customers and suppliers. The firm now deals in various steel products, mainly thermos-mechanically treated (TMT) bars, and channels, angles, plates, and joints.

- **Moderate TOLANW ratio:** SKS's financial risk profile is moderate marked by leveraged capital structure. Gearing and total outside liabilities to adjusted net worth (TOLANW) ratios were 1.92 times and 2.87 times, respectively in fiscal 2021, better as compared to fiscal 2020, where the ratios were at 1.99 times and 3.05 times, respectively. Also, the capital structure is expected to improve over the medium term, with repayments of term loans and steady improvement in accruals.

Liquidity: Stretched

Bank limit utilization is moderate at around 80 percent for the past twelve months ended September 2021. Cash accruals are expected to be around Rs.0.78-1.05 crores which are just sufficient against long term repayment of Rs.0-40- 0.75 crores. Current ratio stood at 1.54 times on March 31, 2021.

Outlook: Stable

CRISIL Ratings believes SKSC will continue to benefit from the extensive experience of its partners in the steel industry.

Rating Sensitivity factors

Upward factors:

- Growth in revenue by over 25% and sustenance in margin above 4%, leading to higher cash accruals
- Better working capital management and improvement in financial risk profile, particularly liquidity

Downward factors:

- Further stretch in working capital cycle leading to GCAs of over 250 days
- Decline in scale of operations, with lower demand and market conditions

About the firm

SKSC was set up in 1986, as a partnership firm between Mr. Y S V Rama Rao Chowdary and his family members. The Visakhapatnam-based firm trades in various steel products such as TMT bars, channels, angles, I-beams, billets, squares, blooms, and rounds.

Key Financial Indicators

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	38.30	37.73
Reported profit after tax	Rs crore	0.38	0.39
PAT margins	%	0.99	1.04
Adjusted Debt/Adjusted Net worth	Times	2.43	2.13
Interest coverage	Times	1.61	1.43

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Level	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	4	NA	CRISIL A4
NA	Cash Credit	NA	NA	NA	12.49	NA	CRISIL B+/Stable
NA	Proposed long Term bank loan facility	NA	NA	NA	0.25	NA	CRISIL B+/Stable
NA	Term Loan	NA	7.75%	Nov-2024	2.26	NA	CRISIL B+/Stable

Annexure - Rating History for last 3 Years

Current				2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based	LT	15.0	CRISIL		--	15-09-20	CRISIL	16-07-19	CRISIL	26-12-18	CRISIL B-	CRISIL

Facilities			B+/Stable				B/Stable		B/Stable		/Stable(Issuer Not Cooperating)*	B-/Stable
Non-Fund Based Facilities	ST	4.0	CRISIL A4		--	15-09-20	CRISIL A4	16-07-19	CRISIL A4	26-12-18	CRISIL A4 (Issuer Not Cooperating)*	CRISIL A4

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	4	CRISIL A4
Cash Credit	12.49	CRISIL B+/Stable
Proposed Fund-Based Bank Limits	0.25	CRISIL B+/Stable
Term Loan	2.26	CRISIL B+/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for rating trading companies
CRISILs Criteria for rating short term debt

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