Press Release

Sunvik Steels Private Limited (SSPL)

31 January, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.66.50 Crore
Long Term Rating	SMERA BBB/Stable (Reaffirmed)
Short Term Rating	SMERA A3+ (Assigned and Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long-term rating of **'SMERA BBB' (read as SMERA triple B)** and short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs.63.40 crore bank facilities of Sunvik Steels Private Limited (SSPL).

Further, SMERA has assigned **'SMERA A3+' (read as SMERA A three plus)** on the Rs.3.10 crore proposed bank facility. The outlook is **'Stable'**.

SSPL, incorporated in 2003, is a Karnataka-based company that manufactures sponge iron, billets and TMT bars. It also generates power for captive consumption through its 10MW power plant.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters: The company, promoted by Mr. Vivek Kumar Kejriwal, Mr. P. Mahendra Kumar Kachhara and Mr. Sandeep Manoharlal Shishodia has been manufacturing sponge iron, billets and TMT bars for the last 13 years. The promoters collectively posses more than two decades of experience in the steel industry.

Integrated nature of operations: SSPL has a fully integrated production facility with complete value chain from iron ore to TMT bar. The company has Direct Reduced Iron kilns for sponge iron, furnace melting division for MS Billets, rolling mill for TMT bar production. These are equipped with automated direct hot billet feeding for fuel conservation and automated TMT bending machines. SPPL has installed automated online billet shearing system and cut and bend steel shop. The company has also set-up a power plant of 10 MW capacity for captive consumption.

Comfortable financial risk profile: The comfortable financial risk profile is marked by adjusted gearing of 1.13 times as on 31 March, 2016 as against 1.11 times in the previous year. Further, the debt protection metrics are comfortable with interest coverage ratio at 2.12 times for FY2015-16 as against 2.00 times in the previous year and debt service ratio at 2.03 times for FY2015-16 as against 0.79 times in the previous year. For arriving at the adjusted gearing, interest free unsecured loan of Rs. 36.55 crore as on 31 March, 2016 from promoters has been considered as part of equity (same is subordinated to bank debt).

Comfortable liquidity profile: The liquidity profile is comfortable as evident from the average cash credit limit of around 74 percent for the last six months ended 30 November, 2016.

Weaknesses:

Decline in operating income and profitability: SSPL reported operating income of Rs.278.67 crore for FY2015-16 as against Rs.315.90 crore in the previous year. The decline in operating income is on account of lower realisations. Further, as communicated by the management SSPL has reported operating income of Rs.140 crore (provisional) from April, 2016 to October, 2016. Further, the company has reported operating margin of 5.87 percent for FY2015-16 as against 6.46 percent in the previous year due to lower bargaining power against customers.

Susceptibility of profitability to volatility in steel prices: The profitability of the company is vulnerable to volatility in the prices of steel.

Intensively competitive and cyclical steel industry: SSPL operates in a highly competitive steel industry thereby putting pressure on capacity utilisation and pricing power. Further, the steel industry is highly cyclical and generally follows economic and industrial conditions both worldwide and in the region.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of SSPL.

Applicable Criteria

- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm
- Default Recognition - https://www.smera.in/criteria-default.htm
- Application Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Outlook: Stable

SMERA believes that SSPL will maintain a stable outlook and continue to benefit over the medium term from the promoter's extensive industry experience. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues while achieving sustained improvement in profitability. The outlook may be revised to 'Negative' in case of lower than expected revenue and profit margins or deterioration in the financial risk profile owing to higher than envisaged debt funded capex or working capital requirements.

About the Rated Entity

SSPL, incorporated in 2003, is a Karnataka-based company engaged in the manufacture of sponge iron, billets and TMT bars. The company also generates power for captive consumption through its 10MW power plant. The company was promoted by Mr. Vivek Kumar Kejriwal, Mr. P. Mahendra Kumar Kachhara and Mr. Sandeep Manoharlal Shishodia. The company has rolling mill with total capacity of 75,000 tonnes per annum (TPA). It also has a steel melting shop with total capacity of 75,000 (TPA) and TMT bar manufacturing capacity of 100,000 (TPA).

SSPL reported profit after tax (PAT) of Rs.0.95 crore on operating income of Rs.278.47 crore for FY2015-16 as compared to PAT of Rs.0.90 crore on operating income of Rs.316.00 crore for FY2014-15. The tangible net worth stood at Rs.64.38 crore as on 31 March, 2016 as compared with Rs.63.60 crore as on 31 March, 2015.

Status of non-cooperation with previous CRA (if applicable): Not applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating with Outlook	Date	Rating
Term Loan	LT	11.90 (reduced from Rs. 15.00 crore)	SMERA BBB/ Stable (Reaffirmed)	-	-	26 Nov, 2015	SMERA BBB/Stable (Assigned)	-	-
Cash Credit	LT	38.50	SMERA BBB/ Stable (Reaffirmed)	-	-	26 Nov, 2015	SMERA BBB/Stable (Assigned)	-	-
Letter of Credit	ST	10.00	SMERA A3+ (Reaffirmed)	-	-	26 Nov, 2015	SMERA A3+ (Assigned)	-	-
Bank Guarantee	ST	3.00	SMERA A3+ (Reaffirmed)	-	-	26 Nov, 2015	SMERA A3+ (Assigned)	-	-
Proposed Non Fund Based Facility	ST	3.10	SMERA A3+ (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Term Loan I	N.A	N.A	30 April, 2019	8.00 (reduced from Rs. 10.00 crore)	SMERA BBB/Stable (Reaffirmed)
Term Loan II	N.A	N.A	30 April, 2019	3.90 (reduced from Rs. 5.00 crore)	SMERA BBB/Stable (Reaffirmed)
Cash Credit	N.A	N.A	N.A	38.50	SMERA BBB/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	10.00	SMERA A3+ (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A	3.00	SMERA A3+ (Reaffirmed)
Proposed Non Fund based Facility	N.A	N.A	N.A	3.10	SMERA A3+ (Assigned)

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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