

## Press Release

### Sunvik Steels Private Limited

09 April, 2018

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 71.75 Cr.
<b>Long Term Rating</b>	SMERA BBB-/Stable (Downgraded from SMERA BBB/Stable)
<b>Short Term Rating</b>	SMERA A3+ (Reaffirmed)

\*Refer Annexure for details

### Rating Rationale

SMERA has downgraded the long term rating to **'SMERA BBB-' (read as SMERA triple B minus)** from **'SMERA BBB' (read as SMERA triple B)** and reaffirmed the short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs. 37.00 crore bank facilities of Sunvik Steels Private Limited (SSPL). SMERA has withdrawn the long term rating of **'SMERA BBB' (read as SMERA triple B)** on the Rs. 25.40 crore bank facilities. Further, SMERA has assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs. 34.75 crore bank facilities of SSPL. The outlook is **'Stable'**.

The downgrade is in view of the continuous decline in net cash accruals from operations. Going forward, the company's net cash accruals over the near to medium term is expected to be below the initial expectation. The downgrade also factors in the liquidity pressures emanating from elongation of the working capital cycle.

The ratings continue to draw comfort from the established market position of the company and extensive experience of the management in the steel industry. The rating also takes into account the integrated nature of operations and above average financial risk profile. However, the aforementioned strengths are partially offset by the susceptibility of profitability to cyclicalities in the industry and intense market competition.

SSPL, incorporated in 2003 is a Karnataka-based company promoted by Mr. Vivek Kumar Kejriwal, Mr. Mahendra Kumar Kachhara and others. The company is engaged in the manufacture of sponge iron, billets and TMT bars and sells the same under the 'SUNVIK' and 'OMSAI' brand names. The company has also set-up a 10 MW power plant for captive consumption and caters largely to the domestic market.

### List of key rating drivers and their detailed description

#### Strengths

#### Established track record of operations and experienced management

The company was incorporated in 2003. The established track record of operations has helped the company maintain long standing relations with suppliers and customers. Further, the promoter, Mr. Vivek Kumar has more than a decade of experience in steel manufacturing while the Director, Mr. Mahendra Kumar Kachhara has more than two decades of experience in the manufacturing of aluminum and other non-ferrous alloys. Besides, the top management is ably supported by a qualified and experienced second line of management. SMERA believes that the company will continue to benefit from the extensive experience of its promoters and long track record of operations in the steel industry.

## **Integrated nature of operations**

SSPL has a fully integrated production facility (across the value chain - from manufacturing of sponge iron to TMT bars). The company has direct reduced iron kilns for sponge iron, furnace melting division for MS Billets, rolling mill for TMT bar production with automated direct hot billet feeding for fuel conservation and automated TMT bending machine. SPPL has installed automated online billet shearing system and automated cut and bend steel shop. SSPL has a 10 MW captive power plant that uses waste heat recovery boilers to keep fuel costs under control to an extent.

## **Weaknesses**

### **Declining margins resulting in lower debt protection metrics**

SSPL reported declining operating margins during the last three years at 5.36 percent for FY2017 as against 5.87 percent for FY2016 and 6.46 percent in FY2015. The Net Cash Accruals declined from Rs.9.79 crore in FY2015 to Rs. 7.63 crore for FY2017. The decline in margins has resulted in deterioration of the debt coverage ratios as the Interest Coverage Ratio stood at 1.97 times for FY2017 as against 2.12 times in the previous year. The Debt Service Coverage Ratio deteriorated to 1.21 times for FY2017 from 2.03 times in the previous year. The Debt/EBITA ratio stood at 4.01 times for FY2017 as against 3.56 times in the previous year. The Return on Capital Employed deteriorated from 8.39 percent in FY2015 to 6.99 percent in FY2017. Further, the adjusted networth fell from Rs. 77.13 crore as on 31<sup>st</sup> March, 2016 to Rs. 69.93 crore as on 31<sup>st</sup> March, 2017 mainly due to repayment of unsecured loan to the extent of Rs. 7.94 crore from related parties which was treated as quasi-equity in the previous year.

The operating cycle of the company has also elongated with Gross Current Asset days (GCA) at 120 for FY2017 compared to 112 days in the previous year. The liquidity profile of the company is stretched with average utilisation of cash credit limit of around 90 percent for the last six months ended February, 2018. Going forward, SMERA believes that improvement in profitability margins alongwith liquidity profile will be a key rating sensitivity factor.

### **Intensely competitive and cyclical steel industry**

SSPL operates in a highly competitive steel industry with pressure on capacity utilisation and pricing power. In addition, the industry also faces threat from cheaper imports resulting in piling up of inventory or low margins. Further, the steel industry is highly cyclical in nature.

### **Analytical approach:**

SMERA has considered the standalone business and financial risk profiles of Sunvik Steels Private Limited to arrive at the rating.

## Outlook: Stable

SMERA believes that SSPL will maintain a Stable outlook and continue to benefit over the medium term from its integrated operations and extensive experience of the promoters in the steel industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of lower net cash accruals leading to further deterioration in the liquidity profile and financial risk profile of the company.

## Applicable Criteria

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

## About the Rated Entity –Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	294.15	278.42	315.74
EBITDA	Rs. Cr.	15.77	16.35	20.41
PAT	Rs. Cr.	0.70	0.95	0.90
EBITDA Margin	(%)	5.36	5.87	6.46
PAT Margin	(%)	0.24	0.34	0.29
ROCE	(%)	6.99	6.84	8.39
Total Debt/Tangible Net Worth	Times	0.95	0.78	0.76
PBDIT/Interest	Times	1.97	2.12	2.00
Total Debt/PBDIT	Times	4.01	3.56	2.77
Gross Current Assets (Days)	Days	120	112	103

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

**Any other information:** Not Applicable

**Rating History for the last three years:**

<b>Date</b>	<b>Name of Facilities</b>	<b>Term</b>	<b>Amount (Rs. Crore)</b>	<b>Ratings/ Outlook</b>
26 Nov, 2015	Term Loan	Long Term	15.00	SMERA BBB/Stable (Assigned)
	Cash Credit	Long Term	38.50	SMERA BBB/Stable (Assigned)
	Letter of Credit	Short Term	10.00	SMERA A3+ (Assigned)
	Bank Guarantee	Short Term	3.00	SMERA A3+ (Assigned)
31 Jan, 2017	Term Loan	Long Term	11.90 (Reduced from Rs. 15.00 crore)	SMERA BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	38.50	SMERA BBB/Stable ( Reaffirmed )
	Letter of Credit	Short Term	10.00	SMERA A3+ ( Reaffirmed )
	Bank Guarantee	Short Term	3.00	SMERA A3+ ( Reaffirmed )
	Proposed Non Fund Based Facility	Short Term	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
Cash Credit I	N.A	N.A	N.A	30.00 (Enhanced from Rs. 25.00 crore)	SMERA BBB-/Stable (Downgraded from SMERA BBB/Stable and Assigned)
Cash Credit II	N.A	N.A	N.A	15.00	SMERA BBB-/Stable (Assigned)
Term Loan	N.A	N.A	N.A	1.75	SMERA BBB-/Stable (Assigned)
Cash Credit	N.A	N.A	N.A	13.50	SMERA BBB/Stable (Withdrawn)
Term Loan	N.A	N.A	N.A	11.90	SMERA BBB/Stable (Withdrawn)
Letter of Credit	N.A	N.A	N.A	10.00*	SMERA A3+ (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A	15.00 (Enhanced from Rs. 2.00 crore)	SMERA A3+ ( Reaffirmed and Assigned)

<sup>^</sup>Includes sublimit of working capital demand loan to the extent of Rs. 15.00 crore; sublimit of letter of credit to the extent of Rs. 5.00 crore and sublimit of bank guarantee to the extent of Rs. 5.00 crore.

\*Fully Interchangeable with Cash credit

**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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