

Press Release

Calstar Sponge Limited (CSL)

20 July, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.23.00 Cr
Long Term Rating	SMERA BB+/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB+**' (**read as SMERA double B Plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A Four Plus**) on the Rs.23.00 crore bank facilities of Calstar Sponge Limited (CSL). The outlook is '**Stable**'.

CSL was incorporated in 2004 by Mr. Tulsi Ram Agarwal and Mr. Vikas Agarwal to manufacture ingots. The company commenced commercial operations in 2006 with installed capacity of 40,000 tons per annum. Thereafter, the company began manufacturing sponge iron from 2008 with capacity of 60,000 tons per annum. In FY2014, the company shifted from manufacture of ingots to billets (same capacity) at Burdwan district, West Bengal.

Key Rating Drivers

Strengths:

Experienced management and long track record of operations: The Directors, Mr. Tulsi Agarwal and Mr. Vinay Agarwal have more than two decades of experience in the iron and steel industry. The extensive experience of the management has helped establish comfortable relations with suppliers and customers.

Strong financial risk profile: The strong financial risk profile is marked by low gearing, moderate networth and healthy debt protection metrics. The gearing has been nil due to minimal utilisation of bank facilities (Cash Credit) in FY2016. The interest coverage stood at 15.43 times in FY2016. The networth increased to Rs 36.79 crore in FY2016 from Rs 36.60 crore in FY2015. For FY2017, the gearing stood at 0.04 times and interest coverage at 31.1 times. SMERA believes that the financial risk profile of the company would be sustained over the medium term backed by steady growth and consistent accruals.

Efficient working capital management coupled with comfortable liquidity: The working capital management is efficient marked by low gross current asset (GCA) days of Rs 55 in FY2016 and 65 in FY2015. The inventory days stood at 32 and 28 in FY2016 and FY2015 respectively while debtors are well managed at 17 and 11 in FY2016 and FY2015.

The liquidity position of the company is marked by healthy cash accruals of around Rs. 2.82 crore in FY2016 against nil term debt obligations. Also, the company has fixed deposits of around Rs.

22.96 crore in FY2016 which provides further comfort to the liquidity position. Moreover, the cash credit limit of the company of Rs. 8.00 crore has been hardly utilised which provides further cushion to its liquidity profile. SMERA expects the liquidity position to be maintained at healthy levels over the medium term.

Weaknesses:

Geographical concentration: CSL caters to the domestic market particularly the eastern part of India. As informed by the management ~ 50 per cent revenue is generated from West Bengal and the rest from Jharkhand, Orissa and Bihar. Hence, the company is exposed to geographic concentration risk.

Volatility in raw material prices, cyclical in the end user industry: Prices of major raw materials like iron ore, pellet, and coal which are required for manufacturing of sponge iron are volatile in nature which can impact profitability.

Analytical Approach: SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that CSL will continue to maintain a 'Stable' outlook owing to its experienced management. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected revenues and accruals, while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the envisaged sales and profitability or if the company registers deterioration in its financial profile. A significant amount of capex undertaken by the company may also entail a 'Negative' outlook.

About the Rated Entity – Key Financials

For FY2015–16, CSL reported PAT of Rs.2.19 crore on operating income of Rs.130.99 crore, compared with PAT of Rs.9.72 crore on operating income of Rs.150.23 crore in FY2014–15. For FY2017 (Provisional) the company had registered revenue of around Rs 139 crore.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Applicable Criteria

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

Note on complexity levels of the rated instrument:

- <https://www.smera.in/criteria-complexity-levels.htm>

History for the last three years:

Name of Instrument /Facilities	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	8.00	SMERA BB+/Stable (Reaffirmed)	-	-	March 19, 2016	SMERA BB+ (Assigned)	-	-
Letter of credit	ST	15.00	SMERA A4+ (Reaffirmed)	-	-		SMERA A4+ (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	N.A	N.A	N.A	8.00	SMERA BB+/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	15.00	SMERA A4+ (Reaffirmed)

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ABOUT SMERA

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