

Press Release

Calstar Sponge Limited

November 03, 2020



Rating upgraded & Assigned

Total Bank Facilities Rated	Rs. 27.50 crore (Enhanced from Rs.23.00 crore)
Long Term Rating	ACUITE BBB-/ Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB- ' (read as ACUITE triple B minus)** from '**ACUITE BB+ ' (read as ACUITE double B plus)** and the short term rating to '**ACUITE A3 ' (read as ACUITE)** from '**ACUITE A4+ ' (read as ACUITE A four plus)** on the Rs.27.50 crore bank facilities of Calstar Sponge Limited (CSL). The outlook is '**Stable**'.

The rating upgrade is driven mainly by the overall improvement in the financial risk profile and liquidity position of the company. The ratings also factor the improvement in company's working capital operations marked by Gross Current Asset (GCA) of 51 days in FY2020 as against 81 days in FY2019. The company continues to draw comfort from its experienced management and long track record of operations.

Calstar Sponge Limited (CSL) was incorporated in the year 2004, promoted by Mr. Tulsi Ram Agarwal and Mr. Vikas Agarwal for the manufacturing of angles, sponge iron and billets. CSL has two manufacturing facilities in West Bengal near Durgapur at Jamuria and Bamunara. The Jamuria unit is used for manufacturing of sponge iron and the Bamunara unit is used for manufacturing of billet and rolled products. Currently, CSL has sponge iron capacity of 75000 MTPA, billet of 72000 MTPA and rolling mill of 48000 MTPA.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of CSL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

CSL is promoted by Mr Tulsi Ram Agarwal and Mr Vikas Agarwal and currently, the operations are being managed by Mr Vikas Agarwal who has nearly two decades of experience in the iron and steel industry. Acuité believes the long track record and rich experience of the promoters and their healthy relations with reputed customers in Eastern India, such as SRMB Steel Private Limited and Shyam Steel Industries Limited to name a few and suppliers including Serajjudin and Company Private Limited. Shyam Steel and Power Limited and Rashmi Metaliks Limited will continue to support the business risk profile over the medium term.

• Healthy financial risk profile

The company's healthy financial risk profile is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company increased to Rs.71.00 crores as on March 31, 2020 compared to Rs.59.28 crores on March 31, 2019 due to retention of profits. The company's gearing stood at 0.05 times as on March 31, 2020 as against 0.22 times as on March 31, 2019. The debt of Rs.3.49 crores consists mainly of short term debt of Rs.3.22 crores as on March 31, 2020. The strong debt protection metrics of the company is marked by Interest Coverage Ratio which stood at 22.88 times in FY2020 as against 82.44 times in FY2019 and Debt Service Coverage Ratio (DSCR) which stood at 17.16 times in FY2020 as against 50.71 times in FY2019. The NCA/TD(Net Cash accruals to total debt) stood at 4.00 times in FY2020 as compared to 1.31 times in FY2019. Debt/EBITDA stood at 0.19 times in FY2020 against 0.55 times in FY2019. The company is undertaking a capex plan which is entirely funded from own sources. Acuité believes that going forward the financial risk profile of the company will remain healthy over the medium term backed by steady accruals and absence of debt-funded capex plan over the medium term.

• Working capital efficient operations

The operations of the company have remained working capital efficient marked by Gross Current Asset (GCA) of 51 days in FY2020 as against 81 days in FY2019. The inventory days stood low at 22 days in FY2020 against 20 days in FY2019. Inventory days stood at 24 days in FY20 20 as compared to 21 days in FY2019. CSL's manufacturing unit is located to the close vicinity of Durgapur and Asansol, which ensures easy availability and procurement of pellet and iron ore. Further, the debtor days also stood low at 29 days in FY2020 compared to 37 days in FY2019. The credit period allowed to their customers is about 15 to 30 days. Acuite expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company and limited credit period extended to its customers.

Weaknesses

• Intense competition and inherent cyclical nature of steel industry

CSL is exposed to intense competition in the steel sector due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, CSL's business risk profile is exposed to the inherent cyclicity in these sectors.

• Geographical concentration risk

The company faces high geographical concentration risk as it majorly undertakes orders from clients situated in West Bengal. Although, the company also exports its products to Nepal, which contributes around 10 percent of its total revenue.

Rating Sensitivity

- Sustenance of working capital management
- Timely completion of the ongoing capex plan
- Improvement in revenues and profitability metrics

Material Covenants

None

Liquidity Profile: Strong

The company's liquidity is strong marked by moderate cash accruals of Rs.13.95 crore in FY2020 against no major debt repayments during the same period. The net cash accruals are expected to be ranging from Rs.11.29 crores to Rs.23.29 crores over the medium term. The current ratio stood comfortable at 1.90 times as on March 31, 2020 as compared to 1.87 times as on March 31, 2019. The operations of the company have remained working capital efficient marked by Gross Current Asset (GCA) of 51 days in FY2020 as against 81 days in FY2019. As a result, the bank limit remains utilized at 27 percent over six months ended on August, 2020. The company has not availed any COVID loan or loan moratorium. The unencumbered fixed deposits and cash and bank balances stood healthy at Rs.30 crores and Rs.0.34 crore respectively as on March 31, 2020. Acuite believes that the liquidity of the company will remain at an adequate level supported by moderate accruals over the medium term.

Outlook: Stable

Acuite believes that CSL will maintain a 'Stable' outlook over the medium term from the long experience of its management, working capital efficient operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of sustained improvement in financial risk profile and working capital operations. The outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or financial risk profile leading to deterioration in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov)	FY19 (Actual)
Operating Income	Rs. Cr.	198.18	214.53
PAT	Rs. Cr.	11.80	15.29
PAT Margin	(%)	5.95	7.13

Total Debt/Tangible Net Worth	Times	0.05	0.22
PBDIT/Interest	Times	22.88	82.44

Status of non-cooperation with previous CRA (if applicable)

India ratings and Research vide its press release dated 10th July, 2020 has mentioned the rating for CSL of 'IND BB/A4+Issuer not cooperating'.

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Nov-19	Cash Credit	Long Term	8.00	ACUITE BB+ *Issuer not cooperating
	Letter of Credit	Short Term	15.00	ACUITE A4+ *Issuer not cooperating
29-Aug-18	Cash Credit	Long Term	8.00	ACUITE BB+ *Issuer not cooperating
	Letter of Credit	Short Term	15.00	ACUITE A4+ *Issuer not cooperating
20-Jul-17	Cash Credit	Long Term	8.00	ACUITE BB+/Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Reaffirmed)
19-Mar-16	Cash Credit	Long Term	8.00	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Name of the bank	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore)	Ratings/Outlook
Cash credit	Indian Bank	Not Applicable	Not Applicable	Not Applicable	14.00(Enhanced from 8.00)	ACUITE BBB-/Stable (Upgraded)
Letter of Credit	Indian Bank	Not Applicable	Not Applicable	Not Applicable	8.50(Reduced from 15.00)	ACUITE A3 (Upgraded)

Bank Guarantee	Indian Bank	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
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Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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