

Press Release

Calstar Sponge Limited

February 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB Positive Assigned	-
Bank Loan Ratings	14.00	ACUITE BBB Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	1.80	-	ACUITE A3+ Assigned
Bank Loan Ratings	13.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	39.30	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) and its short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.27.50 Cr bank facilities of Calstar Sponge Limited (CSL). The outlook is revised from '**Stable**' to '**Positive**'. Acuite has also assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) and its short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.11.80 crore bank facilities of CSL. The outlook is '**Positive**'.

Rationale for revision in the outlook

The revision in the outlook is driven by the improvement in the profitability margins in FY2021, the expected improvement in the revenues & margins going forward due to the capex plans undertaken by the company, healthy financial risk profile and strong liquidity position marked by adequate net cash accruals against low debt repayment obligations & judicious utilization of the working capital limits. The company continues to draw comfort from its experienced management and long track record of operations.

About the Company

Kolkata-based, Calstar Sponge Limited (CSL) was incorporated in the year 2004. The company is promoted by Mr. Tulsi Ram Agarwal, Mr. Vikas Agarwal, Mr. Rajiv Agarwal and Mr. Vinay 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 increased the sponge iron capacity to 1,46,000 MTPA from 75000 MTPA in FY2021 and has the capacity of billet of 72000 MTPA and rolling mill of 48000 MTPA.

Analytical Approach

Acuité has taken a 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, Mr. Vikas Agarwal, Mr. Rajiv Agarwal and Mr. Vinay 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

Financial risk profile of CSL is healthy marked by healthy net worth, low gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and strong debt protection metrics. The gearing stood at (0.02) times as on March 31, 2021 against 0.05 times as on March 31, 2020. TOL/TNW stood at 0.35 times as on March 31, 2021 against 0.43 times as on March 31, 2020. Tangible net worth of the company stood healthy at Rs.82.19 crore as on March 31, 2021 against Rs.71.00 crore as on March 31, 2020. Of the total debt of Rs.(1.40) crore as on March 31, 2021, long-term debt stood at Rs.0.19 crore, short-term debt stood at Rs.(1.63) crore and CPLTD stood at Rs.0.04 crore. Debt protection metrics of interest coverage ratio and DSCR stood healthy at 33.77 times and 24.81 times respectively in FY2021. 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.

>Forward integration of the company

The Company has achieved turnover of Rs.267.00 crore for 9MFY2022 and is expecting to achieve higher revenues of around Rs.350 crore in FY2022 since the company has already increased the sponge iron capacity in FY2022 (from June, 2021) from 75000 MTPA to 1,46,000 MTPA. The revenues and margins are expected to increase going forward since the company is undertaking capex plans of increasing the billet plant capacity from 72000 MTPA to 75000 MTPA and the company has also installed a 12MW power plant. So, the entire power will be generated from the waste heat of the sponge iron and it is going to be captively consumed. So, this will lead to reduction in the overall power cost and which will generate higher margins. Acuité believes that capex plans of the company of forward integration may lead to improvement in scale of operations as well as profitability margins over the medium term.

Weaknesses

>Moderate working capital operations

CSL's working capital operations are moderate marked by Gross Current Asset days (GCA) of 89 days in FY2021 against 51 days in FY2020. The inventory days stood at 43 days in FY2021 against 22 days in FY2020. The company maintains an inventory holding policy of 30-45 days on an average. The debtors' days stood at 48 days in FY2021 against 29 days in FY2020. The customers have to pay in advance. However, in case of big customers such as SRMB Steel, Shyam Steel etc., the customers pay immediately within 2 working days after receiving the material. The debtors' days are high in FY2021, majorly due to the 25% exports to Nepal. The exports were LC based, so the LC clearance takes time. Typically, the company gets payment within 60 days. The creditors' days stood at 32 days in FY2021 against 33 days in FY2020. The company makes advance payment to their suppliers. The materials are delivered

through Indian Railways. So, after the company makes payment, the suppliers have to get rates from the Indian Railways. Once the Indian Railways give the rate, only then the materials can be loaded and delivered to the company's factory. So, this takes around 30 days on an average. However, working capital limits remained utilized at 23.68 percent for last trailing six months ended December, 2021.

Acuité believes that the working capital operations are expected to improve over the medium term.

>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 unorganized 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. The company also faces high geographical concentration risk as it majorly undertakes orders from clients situated in West Bengal.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material covenants

None

Liquidity Position: Strong

CSL has strong liquidity position as reflected by adequate net cash accruals against low repayment obligations. The company generated cash accruals in the range of Rs.13.74 crore – Rs.17.41 crore during the last three years through FY2019-21 against low repayment obligations of Rs.0.04 crore during the same period. It is expected to generate cash accruals in the range of Rs.39.52 crore – Rs.70.46 crore over the medium term, against moderate repayment obligations of Rs.0.04 crore. Unencumbered cash and bank balances stood at Rs.0.77 crore as on March 31, 2021 with a current ratio of 1.90 times in the same period. Liquid investments stood at Rs.18.30 crore as on March 31, 2021. The company has not availed any covid loans / covid moratorium. The working capital limits remained utilized at ~23.68 percent for last trailing six months ended December, 2021.

Acuité believes that the liquidity of the company will remain at an adequate level supported by moderate accruals over the medium term.

Outlook: Positive

Acuité believes that CSL will maintain a 'Positive' outlook over the medium term owing to its experienced management & long track record of operations, substantial growth in the revenues & margins, healthy financial risk profile & strong liquidity position. The outlook may be revised to 'Stable' if the company demonstrates low revenues & margins from the current levels or deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company further registers lower than expected growth in revenues and profitability or further deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	150.39	198.18
PAT	Rs. Cr.	11.53	11.80
PAT Margin	(%)	7.67	5.95

Total Debt/Tangible Net Worth	Times	(0.02)	0.05
PBDIT/Interest	Times	33.77	22.88

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Nov 2020	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	8.50	ACUITE A3+ (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	14.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
03 Nov 2020	Letter of Credit	Short Term	8.50	ACUITE A3 (Upgraded from)
	Cash Credit	Long Term	14.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
22 Nov 2019	Letter of Credit	Short Term	15.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ (Issuer not co-operating*)
29 Aug 2018	Cash Credit	Long Term	8.00	ACUITE BB+ (Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Issuer not co-operating*)
20 Jul 2017	Cash Credit	Long Term	8.00	ACUITE BB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Reaffirmed)
19 Mar 2016	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB Positive Reaffirmed Stable to Positive
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Positive Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE A3+ Assigned

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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 8,850 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 Kanjurmarg, Mumbai.

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