

Press Release

Sugna Metals Limited

June 20, 2017

Rating Reaffirmed



| | |
|-------------------------------------|---------------------------|
| Total Bank Facilities Rated* | Rs. 45.00 Cr. |
| Long Term Rating | SMERA B / Outlook: Stable |
| Short Term Rating | SMERA A4 |

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 45.00 crore bank facilities of Sugna Metals Limited. The outlook is '**Stable**'.

Sugna Metals Limited (SML) was established on October 2006 by Mr. Bharat Kumar Sonthalia, Ms. Saroj Devi Santhalia and Mr. Mudit Santhalia as a private limited company and converted into a limited company in 2013. The company commenced operations from December 2008 to manufacture and trade in TMT Bars, MS Billets and other steel rolled products. The installed capacity stands at 200 MT per day for MS Billets and TMT bars each in Andhra Pradesh.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations:**

Mr. Bharat Kumar Sonthalia has extensive experience in the steel and textile industries.

- **Average financial risk profile:**

SML has average financial risk profile marked by low gearing, comfortable networth and moderate coverage indicators. The gearing (debt-equity) stood at 0.98 times in FY2016 compared to 0.94 in FY2015. The networth stood comfortable at Rs 44.73 crore in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.70 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.09 times in FY2016.

Weaknesses

- **Decline in Revenue in FY2016 and FY2017:**

The company registered decline in revenue to Rs 190.90 crore in FY2016 from Rs 236.70 crore in FY2015. In FY2017 (Provisional), the company registered revenue of Rs 160 crore. The decline in FY2016 and FY2017 was due to fluctuations in the prices of steel. However, the company has undertaken capex to set up a furnace plant. The installed capacity of billets is expected to increase to 500 mt per day (from 200 mtpd) and TMT bars to 500 mt per day (from 200 mtpd). SMERA believes that the additional capacity will help the company improve its topline over the medium term.

- **Working capital intensive operations:**

The working capital intensive operations are marked by high gross current asset (GCA days of 145 in FY2016 compared to 115 in FY2015. The inventory days are high at 110 in FY2016 compared to 88 in FY2015 as the company needs to maintain raw material inventory for a month.

- **Exposure to inherent cyclicalality in the steel industry and susceptibility of profitability to**

volatility in raw material prices:

The prices of major raw materials, (iron ore, coal and coke) have witnessed high volatility in the past. The profit margins and sales remain exposed to the inherent cyclicalities in the steel industry. As a result, the profitability margins are susceptible to input price fluctuation.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company

Outlook: Stable

SMERA believes that SML will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company increases its scale of operations and registers sustained improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profit margins or deterioration in the capital structure on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, SML reported PAT of Rs.1.21 crore on operating income of Rs.190.90 crore, as compared with losses of Rs.1.43 crore on operating income of Rs.236.70 crore in FY2014-15.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---|------------|------------------|------------------|
| 19-Apr-2016 | Term Loan | Long Term | INR 9 | SMERA B / Stable |
| | Cash Credit | Long Term | INR 27 | SMERA B / Stable |
| | Inland/Foreign Letter of Credit (ILC/FLC) | Short Term | INR 9 | SMERA A4 |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|------------------|
| Term loans | Not Applicable | Not Applicable | 31-May-2019 | 9.00 | SMERA B / Stable |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 27.00 | SMERA B / Stable |

| | | | | | |
|------------------|----------------|----------------|----------------|------|----------|
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 9.00 | SMERA A4 |
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Contacts

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ABOUT SMERA

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