

Press Release

Siri Smelters & Energy Private Limited

June 13, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Upgraded from ACUITE D (Indicative))

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE B-** (read as **ACUITE B minus**)' from '**ACUITE D (Indicative)**' (read as **ACUITE D (Indicative)**) to the Rs.17.00 crore bank facilities of Siri Smelters & Energy Pvt Ltd (Siri). The outlook is '**Stable**'.

Acuité, in line with Securities and Exchange Board of India guidelines, had flagged off the rating on the long-term bank facility of Siri Smelters & Energy Private Limited (Siri) to 'ACUITE D (Indicative)' due to lack of adequate information for review of the ratings. The current review is basis the requisite information shared subsequently by the management. Consequently, Acuité is upgrading the rating from '**ACUITE D (Indicative)**' to '**ACUITE B-/Stable**'.

The rating upgrade reflects timely servicing of its debt obligations for the last three months through May 31, 2018. The company's loan facilities have been restructured in March, 2018 and as a result, the repayment obligations have reduced drastically which enhanced the financial flexibility of the company. The company is currently obliged to service interest on its funded interest term loan and new working capital term loan; its principal repayment obligations starts in March, 2019. Acuité believes that Siri's ability to manage its cash flows and debt servicing is a key rating sensitivity factor over the near term.

The upgrade also reflects improvement in its business risk profile marked by sustainable improvement in its revenues in FY2018 to Rs.43.00 crore (Provisional) from Rs.20.28 crore in FY2017 due to higher offtake from the stocked up inventory, though at lower realisations which led to lower operating margins of 10.75 percent (Provisional) in FY2018. Inventory levels have improved to ~100 days as of March, 2018. Acuité believes that sustainable improvement in business risk profile and re-structuring of its debt would aid the financial risk profile of the company over the medium term.

Siri incorporated in 2011, is an Andhra Pradesh based company, promoted by Mr. Mohan Sajja and Mrs. Jyothsna Sajja. The company started its commercial operation in August 2014. It is engaged in manufacturing of ferro alloys, mainly, Silico Manganese.

Key Rating Drivers

Strengths

- Experienced management and promoters funding support**

Mr. Mohan Sajja (Managing Director) has an experience of more than a decade in ferro alloy industry. He was initially involved in trading of ferro alloys. Promoters' experience has helped Siri develop and maintain long standing relations with customers and suppliers and helped in scaling up of operations to Rs.43.00 crore (Provisional) in FY2018 from Rs.15.69 crore in FY2015.

Unsecured loans (treated as quasi-equity, as the same are non-interest bearing) from promoters as on March, 2018 amount to Rs.15.57 crore (Provisional) which has increased over the years from Rs.6.49 crore as on March, 2016 to support the day-to-day operations of the company. Acuité believes that Siri continues to enjoy the support from the promoters in improvement of its business risk profile over the medium term.

- **Comfortable financial risk profile**

The financial risk profile is marked by comfortable gearing levels and debt protection metrics. The net worth stood at Rs.20.20 crore as on 31 March, 2018 (Provisional), an improvement from Rs.10.90 crore as of March, 2015; it was mainly due to accretion of profit to internal accruals. The gearing stood at 0.80 times (Provisional) as of March 2018, which has improved from 1.47 times as of March, 2015. Interest Coverage Ratio (ICR) and Net Cash Accruals to Total Debt (NCA/TD) are modest at 2.87 times and 0.17 times, respectively for FY2018 as compared to 1.95 times and 0.15 times for FY2017. Acuité believes that the financial risk profile is expected to remain at the same level over the medium term due to absence of debt funded capital expenditure.

Weaknesses

- **Intense working capital operations and Modest revenues**

Siri's operations are working capital intensive as evident from Gross Current Assets (GCA) of 129 days (Provisional) as on 31 March, 2018 as compared to 316 days as on 31 March, 2017. High GCA days entails high inventory days in the range of 107 to 424 and debtor days ranged from 14 to 27 during FY2015-FY2018.

Siri's operations are modest with revenue of Rs.15.00 crore to Rs.20.00 crore during FY2015-FY2017; as a result, it has posted losses after tax in FY2015 and FY2016. Also, as the operations are power intensive, it has weighed heavily in the year FY2015 and FY2016 on the profitability of the company.

High inventory levels, modest scale of operations, coupled with losses in FY2015 and FY2016 has led to negative cash flow operations of over Rs.16.00 crore. As a result, the company advanced for restructuring of its loan facilities, and got moratorium on its term loan facilities till March 2019. Acuité believes that though the operations are improving, however, the company's ability to sustain the improvement in the operating cycle is to be seen over the near term.

- **Limited track record of operations**

The company has started its commercial operation in August 2014, therefore, the company has short track record of performance in manufacturing of ferro alloys. However, the company has registered revenue of Rs.43.00 crore (Provisional) in FY2018.

- **Highly competitive and fragmented industry**

The Ferro Alloys manufacturing industry is a highly fragmented industry and there is large number of organised and unorganised players which has led to high competition in the industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Siri to arrive at this rating.

Outlook: Stable

Acuite believes that the outlook on Siri will remain 'Stable' over the medium term on account of the experience of the promoters. The outlook may be revised to 'Positive' in case of significant improvement in its revenues and profitability while sustaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.28	21.96	15.69
EBITDA	Rs. Cr.	4.15	3.72	0.99
PAT	Rs. Cr.	0.13	-1.04	-1.68
EBITDA Margin	(%)	20.47	16.93	6.29
PAT Margin	(%)	0.66	-4.72	-10.73
ROCE	(%)	7.21	5.07	-3.03
Total Debt/Tangible Net Worth	Times	0.79	1.03	1.47
PBDIT/Interest	Times	1.95	1.47	0.79
Total Debt/PBDIT	Times	3.33	4.40	15.82
Gross Current Assets (Days)	Days	316	372	292

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-Jan-2018	Cash Credit	Long term	9.00	ACUITE D (Indicative)
	Term loan	Long term	4.38	ACUITE D (Indicative)
	Proposed Cash credit	Long term	3.62	ACUITE D (Indicative)
06-Oct-2016	Cash Credit	Long term	9.00	ACUITE D (Assigned)
	Term loan	Long term	4.38	ACUITE D (Assigned)
	Proposed Cash credit	Long term	3.62	ACUITE D (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	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B- / Stable (Upgraded from ACUITE D)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	7.80	ACUITE B- / Stable (Upgraded from ACUITE D)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.27	ACUITE B- / Stable (Upgraded from ACUITE D)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	0.93	ACUITE B- / Stable (Upgraded from ACUITE D)

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About Acuité Ratings & Research:

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