

Press Release

Siri Smelters & Energy Private Limited

July 22, 2019



Rating Downgraded

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.17.00 Cr. |
| Long Term Rating | ACUITE D (Downgraded from ACUITE B-/Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating from '**ACUITE B-**' (**read as ACUITE B minus**) to '**ACUITE D**' (**read as ACUITE D**) to the Rs. 17.00 crore bank facilities of SIRI SMELTERS & ENERGY PRIVATE LIMITED (SSPL).

The rating revision is on account of persistent delays in repayment of interest and principal of term loan and overdrawings of working capital facilities. This is majorly due to stretched liquidity of the company.

SSPL, 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

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.

Acuité believes that Siri continues to enjoy the support from the promoters in improvement of its business risk profile over the medium term.

- **Moderate scale of operations**

The company reported moderate revenue growth of ~20 percent with operating income of Rs.46.34 crore in FY2019 (Provisional) as against operating income of Rs.38.54 crore in FY2018. However, there has been marginal decline in profitability marked by operating margins of 12.01 per cent in FY2019 (Provisional) as against 12.71 per cent in FY2018.

Weaknesses

- **Delays in debt servicing**

There has been irregularity in the repayment of principal and interest on term loans due to weak financial risk profile and stretched liquidity.

- **Weak financial risk profile**

The financial risk profile is marked by weak gearing levels and debt protection metrics. The net worth stood at negative Rs.16.16 crore as on 31 March, 2019 (Provisional) as against negative Rs.12.04 crore as of March, 2018. The gearing stood at negative 1.65 times as of March 2019 (Provisional) as against negative 1.95 times as of March, 2018. Interest Coverage Ratio (ICR) stood at 2.51 times in FY2019 (provisional) as against 2.64 times in FY2018. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.13 times for both FY2019 (provisional) and FY2018.

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

SSPL's operations are working capital intensive as evident from Gross Current Assets (GCA) of 149 days as on 31 March, 2019 (Provisional) as against 114 days as on 31 March, 2018. High GCA days entails high inventory days marked by 126 days as on 31st March, 2019 (Provisional) as against 104 days as on 31 March, 2018. Debtor days stood at 17 days as on 31 March, 2019 (Provisional) as against 12 days as on 31 March, 2018.

- **Limited track record of operations and highly competitive and fragmented industry**

The company has started its commercial operations 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.46.34 crore (Provisional) in FY2019.

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

Liquidity Position

SSPL has weak liquidity marked by low net cash accruals of Rs.3.35 crore for the FY2019 (Provisional) as against Rs.3.08 crore during FY2018. The company has intensive working capital operations as marked by high GCA days of 149 in FY2019 (Provisional). This has led to higher reliance on working capital borrowings, the cash credit limit of the company remained fully utilised during the last six months' period ended June, 2019. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2019 (Provisional).

Acuité believes that the liquidity of the company is likely to remain weak over the medium term on account of low net cash accruals and intensive working capital operations.

About the Rated Entity - Key Financials

| | Unit | FY19 (Prov.) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------|---------------|---------------|
| Operating Income | Rs. Cr. | 46.34 | 38.54 | 20.28 |
| EBITDA | Rs. Cr. | 5.57 | 4.90 | 4.16 |
| PAT | Rs. Cr. | 0.23 | 0.19 | 0.13 |
| EBITDA Margin | (%) | 12.01 | 12.71 | 20.50 |
| PAT Margin | (%) | 0.49 | 0.49 | 0.65 |
| ROCE | (%) | 21.96 | 12.95 | 23.03 |
| Total Debt/Tangible Net Worth | Times | (1.65) | (1.95) | (3.50) |
| PBDIT/Interest | Times | 2.51 | 2.64 | 1.95 |
| Total Debt/PBDIT | Times | 4.80 | 4.74 | 6.59 |
| Gross Current Assets (Days) | Days | 149 | 114 | 318 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|-----------|------------------|--|
| 13-June-2018 | Term Loan | Long Term | 3.27 | ACUITE B-/ Stable (Upgraded from ACUITE D) |
| | Cash Credit | Long Term | 5.00 | ACUITE B-/ Stable (Upgraded from ACUITE D) |
| | Working Capital Term Loan | Long Term | 7.80 | ACUITE B-/ Stable (Upgraded from ACUITE D) |
| | Proposed Bank Facility | Long Term | 0.93 | ACUITE B-/ Stable (Upgraded from ACUITE D) |
| 30-Jan-2018 | Term Loan | Long Term | 4.38 | ACUITE D (Indicative) |
| | Cash Credit | Long Term | 9.00 | ACUITE D (Indicative) |
| | Proposed Cash Credit | Long Term | 3.62 | ACUITE D (Indicative) |
| 06-Oct-2016 | Term Loan | Long Term | 4.38 | ACUITE D (Assigned) |
| | Cash Credit | Long Term | 9.00 | 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. Cr.) | Ratings/Outlook |
|---------------------------|------------------|----------------|----------------|-----------------------------|---|
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 3.27 | ACUITE D (Downgraded from ACUITE B-/Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE D (Downgraded from ACUITE B-/Stable) |
| Working Capital Term Loan | Not Applicable | Not Applicable | Not Applicable | 7.80 | ACUITE D (Downgraded from ACUITE B-/Stable) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.93 | ACUITE D (Downgraded from ACUITE B-/Stable) |

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About Acuité Ratings & Research:

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