

Press Release

Suncity Sheets Private Limited

09 April, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 72.00 Cr.
Long Term Rating	SMERA BBB+/ Outlook: Stable
Short Term Rating	SMERA A2

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA BBB+**' (**read as SMERA triple B plus**) and short term rating of '**SMERA A2**' (**read as SMERA A two**) on the Rs. 72.00 crore bank facilities of Suncity Sheets Private Limited. The outlook is '**Stable**'.

Jodhpur based Suncity Sheets Private Limited (SSPL) (erstwhile known as Bhansali Rubber Private Limited) was incorporated in 1981. The company promoted by Mr. Ram Agarwal and Mr. Mukesh Agarwal is engaged into manufacturing of SS Coils, Sheets, Circles and Utensils. The company is selling its products at domestic as well as international market. They have been granted ISO 9002 from QIS, Zurich.

Analytical approach:

SMERA has considered consolidated business and financial risk profiles of Suncity Strips and Tubes Private Limited (SSTPL), Suncity Sheets Private Limited (SSHPL), Suncity Alloys Private Limited (SAPL), Suncity Metals Private Limited (SMPL) and Suncity Strips Private Limited (SSPL) hereinafter referred as Suncity Group. The consolidation is mainly on account of similarity in the line of business, strong operational & financial synergies, common management and stated intent of management to merge these entities in the near term.

Key rating drivers

Strengths

Experienced management

The Promoters, Mr. Mahaveer Agarwal and Mr. Harish Agarwal have an experience of over two decades in the Iron and Steel industry. Mr. Ram Agarwal, Founder of Suncity Group has over four decades of experience in the above mentioned industry. The group backed by their experience have been able to generate longstanding relations with various customers and suppliers.

Healthy financial risk profile

Suncity group has a healthy financial risk profile marked by tangible net worth of Rs. 99.40 crore as on 31 March, 2017 as against Rs. 81.69 crore as on 31 March, 2016. It includes

unsecured loans of Rs. 15.00 crore which is considered as quasi equity. The adjusted gearing stood at 0.56 times as on 31 March, 2017 which improved from 1.31 times as on 31 March, 2016. The debt of Rs. 55.55 crore mainly consists of term loan of Rs. 22.87 crore, unsecured loan of Rs. 6.92 crore and working capital borrowing of Rs. 25.76 crore as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 5.15 times for FY2017 as against 3.81 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 2.64 times for FY2017 as against 1.89 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.97 times as on 31 March, 2017 as against 1.52 times as on 31 March, 2016. Going forward, SMERA expects the group to maintain its financial risk profile in absence of major debt funded capex plans in near term.

Moderate working capital operations

Suncity Group is having moderate working capital operations marked by Gross Current Asset (GCA) of 104 days in FY2017 compared to 112 days in FY2016. The GCA days are mainly dominated by inventory days of 57 in FY2017 compared to 52 in FY2016. The average cash credit utilization for the past six months stood at ~60 percent. SMERA believes that the efficient working capital management will be crucial to the group in order to maintain a stable credit profile.

Improving profitability margins

The revenues of the group improved to Rs. 457.69 crore in FY2017 from Rs. 455.83 crore in FY2016. Further during the period April 2017 to February 2018, the group has recorded revenues of Rs. 437.16 crore. The operating margins of the group improved to 7.99 percent in FY2017 as against 6.99 percent in FY2016. This was mainly on account of decrease in the raw material prices. The PAT margins improved to 3.87 percent in FY2017 from 3.02 percent in FY2016 mainly on account of decrease in the interest cost.

Weaknesses

Exposure to volatility in raw material prices and forex fluctuation risk

The group's profitability is dependent on volatility of raw material prices and susceptibility to demand and supply of steel in Indian market. Further, the group is exposed to foreign exchange fluctuation risks in absence of hedging mechanism.

The group's operates in a highly competitive and fragmented steel industry characterized by large number of unorganised players affecting margins.

Outlook – Stable

SMERA believes Suncity Group will maintain a 'Stable' business risk profile over the medium term as the group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues, profit margins, or in case of deterioration in financial risk profile and liquidity position.

About the group

The Suncity Group commenced its operations in 1992. They are into manufacturing of stainless steel sheets, pipes, tubes, circles and also trading of agro-food products like guar-gum, seeds among others. The overall installed capacity for manufacturing of SS products is 30000 MTPA. They have their offices at Delhi, Ahmedabad, Mumbai, Indore, and Kolkata.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	457.69	455.83	387.04
EBITDA	Rs. Cr.	36.58	31.88	27.32
PAT	Rs. Cr.	17.71	13.78	8.49
EBITDA Margin	(%)	7.99	6.99	7.06
PAT Margin	(%)	3.87	3.02	2.19
ROCE	(%)	16.16	14.20	26.89
Total Debt/Tangible Net Worth	Times	0.56	1.31	1.21
PBDIT/Interest	Times	5.15	3.81	3.19
Total Debt/PBDIT	Times	1.48	3.13	2.81
Gross Current Assets (Days)	Days	104	112	114

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

CARE in its press release dated 13 March, 2018 had inter-alia mentioned the following: 'CARE has been seeking information from Suncity Sheets Private Limited (SSPL) to monitor the rating vide e-mail communications/ letters dated December 14, 2017, December 21, 2017, December 28, 2017, February 06, 2018, February 09, 2018, February 15, 2018, February 24, 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on SSPL's bank facilities will now be denoted as CARE BBB-; Stable /CARE A3; ISSUER NOT COOPERATING*. Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.'

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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	29.00	SMERA BBB+/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.40	SMERA BBB+/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.90	SMERA BBB+/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.70	SMERA BBB+/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	33.00	SMERA A2

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ABOUT SMERA

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