Press Release

Shree Ram Sponge and Steels Private Limited

August 30, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BB+ /Stable (Upgraded from BB/Stable)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BB+' (read as ACUITE double B plus)** from **'ACUITE BB' (read as ACUITE double B)** on the Rs.25.00 cr bank facilities of Shree Ram Sponge and Steels Private Limited. The outlook is **'Stable'**.

The rating upgrade factors in improvement in the business and financial risk profile of the company driven by significant improvement in the topline coupled with rise in cash accruals. The topline of the company increased to Rs. 181.79 crore in FY 2019 (Provisional) as compared to Rs. 132.86 crore in the previous year, thereby marking a y-o-y growth of 37 per cent. Moreover, the upgrade in rating factors in the comfortable financial risk profile and prudent working capital management. However, these strengths are partially offset by low operating profitability of the company.

Shree Ram Sponge and Steels Private Limited (SRPL) is an Odisha-based company incorporated in 1993 by Mr. Umesh Sharma in the name 'Shree Ram Dairy Farm and Plantations Private Limited'. Later in 2000, the company started manufacturing of MS Ingots. Currently, the operations are headed by Mr. Umesh Sharma. In the year 2007, the company started manufacturing of TMT Bars that are sold under the brand name 'Shreeram TMT'.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced promoter**
  The promoters of the company have more than a decade of experience in the iron and steel industry. The director, Mr. Umesh Sharma, looks after the day-to-day operations of the company. The long track record of operations and experience of management has helped the company to develop healthy relationship with its customers and suppliers.

- **Improvement in top-line**
  The company's revenues increased to Rs. 181.79 crore in FY2019 (Provisional) as compared to Rs.132.86 crore in FY2018, marking a growth of 37 per cent yoy. The company's revenue has shown an increasing trend in the past three years. The company has achieved a compounded annual growth rate (CAGR) of 20.85 per cent from FY2017 to FY2019 (Provisional). The increase in revenue is on account of improved realization for TMT bars over the last three years and better capacity utilisation. The installed capacity of 48000 MT per annum for TMT bars has been utilized to 94 per cent in FY2019 (Provisional) as compared to 84 per cent utilised in the previous year.

- **Efficient working capital management**
  The company's working capital is efficiently managed as evident from improvement in Gross Current Asset (GCA) to 85 days in FY2019 (Provisional) compared to 102 days in FY2018. The improvement in GCA days is on account of decrease in inventory days to 30 in FY2019 (Provisional) as compared to 48 days in FY2018. The low inventory is on account of locational advantage for raw materials availability in the form of sponge iron and ingots. The debtor days stood in line at 49 days in FY2019 (Provisional) as compared to 50 days in FY2018.

- **Moderate financial risk profile**
  The financial risk profile of the company is moderate marked by modest net worth, gearing and healthy debt protection metrics. The net worth of the company has stood at Rs. 18.02 crore in FY2019 (Provisional) as compared to Rs. 16.41 crore in FY2018. The increase in net worth is on account of accretion of profits to reserves. The gearing stood moderate at 1.25 times in FY2019 (Provisional) compared to 1.19 times in FY2018. The total debt of Rs. 22.46 crore in 31 March, 2019 (Provisional) consists of long term debt of Rs.0.75 crore and short term debt of Rs. 21.72 crore. The interest coverage ratio and DSCR stood comfortable at 2.34 times and 2.04 times in FY2019 (Provisional) compared to 2.06 times and 1.67 times in FY2018, respectively. The NCA/TD stood at 0.11 times in FY2019 (Provisional) as against 0.09 times in FY2018.

Weaknesses

- **Low profitability**
  The company's operating margins has declined during the last 3 years of operation. The operating margin stood at 2.59 per cent in FY2019 (Provisional) as compared to 3.21 per cent in FY2018 and 3.50 per cent in FY2017. The decline in operating margin is due to fluctuation in prices of TMT bars and also discounts and commission given to the customers for sales promotion. PAT margin stood at 0.88 per cent in FY2019 (Provisional) as compared to 0.71 per cent in FY2018.

- **Presence in highly competitive and fragmented industry**
  The company operates in a highly competitive and fragmented industry and faces stiff competition from various organised and unorganised players in the sector. Moreover, the profit margins and sales of the company remains exposed to inherent cyclicality in the steel industry.

Liquidity Profile

The company's liquidity is adequate marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.2.44 crore in FY2019 (Provisional) to repay its long term debt obligations of Rs.0.27 crore over the same period. The company's working capital is efficiently managed as evident from improvement in Gross Current Asset (GCA) to 85 days in FY2019 (Provisional) as compared to 102 days in FY2018. The current ratio stood at 1.26 times as on March 31, 2019 (Provisional) and the fund based limit remains utilised at 97 per cent over the twelve months ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.2.09 crore as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of any significant debt funded capex.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the promoters. The outlook may be revised to 'Positive' if the company achieves more than expected sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability leading to weakening of the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	181.79	132.86	102.99
EBITDA	Rs. Cr.	4.71	4.26	3.60
PAT	Rs. Cr.	1.61	0.94	0.65
EBITDA Margin	(%)	2.59	3.21	3.50
PAT Margin	(%)	0.88	0.71	0.63
ROCE	(%)	10.58	11.21	10.03
Total Debt/Tangible Net Worth	Times	1.25	1.19	0.86
PBDIT/Interest	Times	2.34	2.06	1.79
Total Debt/PBDIT	Times	4.51	4.29	3.42
Gross Current Assets (Days)	Days	85	102	110

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-4.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
03-July-2018	Cash Credit	Long Term	22.00	ACUITE BB/Stable (Assigned)
	Proposed	Long Term	3.00	ACUITE BB/Stable (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BB+ /Stable (Upgraded)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ /Stable (Upgraded)

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About Acuité Ratings & Research:
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