

Press Release

Shree Ram Sponge and Steels Private Limited

February 15, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B Plus**) to the Rs.25.00 Cr bank facilities of Shree Ram Sponge and Steels Private Limited (SRSSPL). The outlook is '**Stable**'.

The rating continues to reflect the established track record of operation along with average financial risk profile marked by high gearing and moderate debt protection ratios. These rating strengths are partially offset by the cyclical nature of the steel industry.

About the Company

Incorporated in 1993, Shree Ram Sponge and Steels Private Limited (SRSSPL) an Odisha based company engaged in manufacturing of MS ingots and TMT bars. The MS ingots are used completely for captive consumption. The TMT bars are sold under the brand name 'Shreeram TMT'. The manufacturing unit is located at Rourkela, Odisha. The company is promoted by Rourkela based Sharma family. Currently, SRSSPL has MS ingot capacity of 32000 MTPA and TMT bar of 48000 MTPA.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of Shree Ram Sponge and steel Ltd.

Key Rating Drivers

Strengths

Experienced management

Mr Sharma has more than two decades of experience in the iron and steel industry. The director, Mr. Umesh Sharma, looks after the day-to-day operations of the company. Acuite believes the long track record of operations and experience of management has helped the company to develop a healthy relationship with its customers and suppliers and will continue to support the business risk profile over the medium term.

Average financial risk profile

The financial risk profile of the company is marked by modest net worth, high gearing and moderate debt protection metrics. The net worth of the company stood at Rs. 20.73 Cr in FY2021 as compared to Rs.19.41 Cr in FY2020. The gearing of the company stood at 1.09 times as on March 31, 2021 as compared to 0.99 times as on March 31, 2020 due to increase in debt level. TOL/TNW stood at 1.55 times in FY21 as against 1.60 times in FY20. The company has high reliance on working capital limit because of stretched receivables. Interest coverage ratio (ICR) stood comfortable at 2.00 times in FY2021 as against 2.22 times in FY 2020. DSCR stood at 1.69 times as compared 1.84 times in FY21. The moderation in coverage ratios is on account of rise in financial cost. The net cash accruals against total debt (NCA/TD) stood at 0.10 times in FY21 as compared to 0.12 times in previous year. Acuité believes the financial risk profile of the company will remain at similar level over the medium term.

Weaknesses

Decline in scale of operation with low profit margin

The company has moderate scale of operation as revenue stood at Rs 153.59 Cr in FY21 as against Rs 168.44 Cr in FY20 on account of decline in sales volume. This decline is due to fall in capacity utilization because of nationwide lockdown. The company has posted revenue of Rs 97 Cr till December 2021 (prov). Hence, the scale of operation is likely to witness further decline in FY22. The company has a low profit margin despite improvement during FY21 as the EBITDA margin stood at 3.37 percent compared to 2.75 percent in FY20. The improvement is account of rise in average realization of TMT bars because of rising demand from end user Industries. The profit margin is expected to remain low over medium term on account of semi integrated operation.

Cyclical nature of the industry

The company's performance remains vulnerable to cyclical nature in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Indian steel sector is highly competitive due to the presence of a large number of players. The operating margin of the company is exposed to fluctuations in the prices of intermediate goods as well as realization from finished goods.

Rating Sensitivities

- Sustained improvement in scale of operation
- Significant improvement in financial risk profile backed by rise in profit margin.

Material covenants

None

Liquidity profile: Stretched

The company has a stretched liquidity profile as reflected from its low net cash accrual of Rs. 2.23 Cr during FY21 against current maturity of Rs 2.56 Cr. In addition, the utilization of working capital limits stood at 89 percent during last 12 months ended December 2021. Current ratio stood at 1.54 times during FY21 as against 1.31 times in FY20. The working capital requirement of the company stood at comfortable level as reflected from GCA days of 99 days in FY21 as against 84 days in FY20. Acuite believes the liquidity position of the company will remain stretched over the medium term because of increase in working capital requirement.

Outlook: Stable

Acuite believes that company will benefit over the medium term from the promoter's vast experience in the steel industry. The outlook may be revised to 'Positive' if company is able to strengthen the financial risk profile along with sustained improvement in profit margin. Conversely, the outlook may be revised to 'Negative' if the company witnessed a significant deterioration in the liquidity profile or financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	153.59	168.44
PAT	Rs. Cr.	1.32	1.40
PAT Margin	(%)	0.86	0.83
Total Debt/Tangible Net Worth	Times	1.09	0.99
PBDIT/Interest	Times	2.00	2.22

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Nov 2020	Working Capital Term Loan	Long Term	3.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BB+ Stable (Reaffirmed)
30 Aug 2019	Proposed Bank Facility	Long Term	3.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	22.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
03 Jul 2018	Cash Credit	Long Term	22.00	ACUITE BB Stable (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BB+ Stable Reaffirmed
UCO Bank	Not Applicable	Working Capital Term Loan	30-09-2021	7.50	30-09-2024	3.00	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

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