

Press Release

Sri Venkatesh Iron And Alloys India Limited

November 12, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 17.00 crore bank facilities of Sri Venkatesh Iron And Alloys India Limited. The outlook is '**Stable**'.

Sri Venkatesh Iron and Alloys India Limited (SVIAL) was incorporated in January 2005 by Mr. Kamal Kumar Agrawal, Mr. Ankit Kedia, Mr. Sushil Kumar Agrawal, Mr. Pawan Kumar Lohia, Mr. Mishank Kedia and Mr. Barun Singh. The promoters have around two decade of experience in the iron and steel industry. The company is engaged in manufacturing of sponge iron with an installed capacity of 60,000 MTPA. The manufacturing facility is located at Jharkhand.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Established track record of operation and experienced management**

Established in 2005, SVIAL has a long operational track record of more than a decade in the sponge iron manufacturing business. Prior to SVIAL, the promoters were engaged in trading of sponge iron. The long track record and the experience of the management have helped the company to build a healthy relationship with customers and suppliers.

• **Moderate financial risk profile**

SVIAL's moderate financial risk profile is reflected in its comfortable gearing, comfortable debt protection metrics and moderate net worth. The net worth is moderate at Rs.31.05 crore as on March 2018. The financial risk profile is moderate marked by comfortable gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. TOL/TNW is moderate at 1.02 times as on March 31, 2018. The gearing stood at 0.70 times as on March 31, 2018 against 0.65 times as on March 31, 2017. The total debt of Rs.21.61 crore includes short term loan of Rs.13.61 crore, long term loan of Rs.3.17 crore and unsecured loan of Rs.4.83 crore as on March 31, 2018. The debt protection metrics are comfortable as interest coverage ratio (ICR) stood at 3.35 times and improved net cash accruals to total debt (NCA/TD) stood at 5.50 times in FY2018 as compared to 2.37 times and 2.48 times respectively in FY2017.

• **Availability of key inputs**

The unit is located in Jharkhand, where, it is assisted by consistent supply of power from Jharkhand State Electricity Board. Also, the unit is well connected with roads and near to the sources of raw materials. i.e. iron ore, coal, which are easily available. Also, there is a continuous requirement of water for cooling purpose of rotary kiln for which the company has good resources of ground water through submersible pump to meet its requirements. Also, skilled and semi-skilled workers are easily available in and around the location.

Weaknesses

- **Moderate working capital management**

SVIAL's stretched working capital is marked by high Gross Current Asset (GCA) days of 136 in FY2018 and 275 in FY2017. Its inventory days stood at 64 and 157 in FY2018 and FY2017, respectively. While the debtors are well managed at 27 days and 41 days in FY2018 and FY2017, respectively. The other current asset amounts to Rs.12.38 crore as on March 31, 2018. On an average the company utilises ~ 81 percent of its fund based limit.

- **Intense competition and inherent cyclical of the steel industry**

SVIAL's profitability is susceptible to volatility in raw material prices. The company operates in highly fragmented and competitive industry which consists of large number of organised and un-organised players. Prospects of the steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz, automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates in the economies in which they sell their products. When downturns occur in these economies or sectors, the steel industry may witness a decline in demand.

Outlook: Stable

Acuité believes that the outlook on SVIAL's facilities will remain 'Stable' over the medium term on account of the experienced management. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected revenues and accruals, while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve its envisaged sales and profitability or in case of deterioration in its financial profile, or undertaking any significant debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	98.32	46.36	84.43
EBITDA	Rs. Cr.	8.18	4.40	(3.73)
PAT	Rs. Cr.	3.07	0.42	(8.34)
EBITDA Margin	(%)	8.32	9.48	(4.42)
PAT Margin	(%)	3.13	0.91	(9.88)
ROCE	(%)	11.53	4.98	(23.28)
Total Debt/Tangible Net Worth	Times	0.70	0.65	0.74
PBDIT/Interest	Times	3.35	2.37	(1.41)
Total Debt/PBDIT	Times	2.62	4.08	(5.56)
Gross Current Assets (Days)	Days	136	275	142

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

CRISIL, vide its press release dated June 27, 2018 had denoted the rating of Sri Venkatesh Iron and Alloys India Limited as 'CRISIL BB+/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BBB-/Stable/CRISIL A3' vide its press release dated March 29, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB- / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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