

## Press Release

### Sri Venkatesh Iron and Alloys India Limited (SVIAL)

December 05, 2019



#### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 17.00 Cr.
<b>Long Term Term Rating</b>	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
<b>Short Term Term Rating</b>	ACUITE A3+ (Upgraded from ACUITE A3)

\* Refer Annexure for details

#### Rating Rationale

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

The rating upgrade reflects the significant improvement in revenue and profitability coupled with substantial improvement in their working capital cycle. The operating revenue stood at Rs 125.35 crore in FY2019 as against Rs 98.32 crore in FY2018, thereby achieving a y-o-y growth of ~27 percent. The company has booked revenue of Rs. 57.48 crore till September, 2019 (Provisional). Further, the operating margin improved to 10.81 percent in FY2019 as against 8.32 percent in FY2018 and Profit after Tax (PAT) stood at 6.13 percent in FY2019 as compared to 3.13 percent in the previous year. The working capital operations have improved with gross current asset (GCA) days of 118 days in FY'2019 from 136 days in FY'2019.

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 1, 20,000 MTPA (4 kiln of 30,000 MTPA each) at its manufacturing facilities located at Jharkhand.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- Experienced management and established track record of operations**

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 Mr. Kamal Kumar Agrawal, Mr. Ankit Kedia, Mr. Sushil Kumar Agrawal, Mr. Pawan Kumar Lohia, Mr. Mishank Kedia and Mr. Barun Singh 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. Acuité believes that SVIAL will sustain its existing business profile on the back of established track record of operations and experienced management.

- Above average financial risk profile**

The financial risk profile of the company is marked by moderate networth, comfortable gearing and strong debt protection metrics. The net worth of the company stood moderate at Rs 41.08 crore as on 31st March, 2019 increased from Rs. 31.05 crore in FY2018, mainly on account of retention of current year profit. The net worth consists of unsecured loan of Rs. 2.34 crore in FY2019 which has been subordinated to the bank and the same has been treated as quasi equity. The gearing of the company stood at 0.36 times as on 31st March, 2019 as against 0.70 times as on 31st March, 2019. The total debt of the company of Rs 14.77 crore as on 31st March, 2019 consists of Rs 1.87 crore of long term loan, unsecured loans of Rs 5.85 crore and short term debt of Rs 7.05 crore. The interest

coverage ratio (ICR) of the company stood at 8.05 times in FY2019 as against 3.35 times in FY2018. Further, the debt service coverage ratio (DSCR) stood healthy at 4.29 times in FY2019 as against 3.23 times in FY 2018. The net cash accruals against total debt stood moderate at 0.69 times in FY2019. What about NCA/TD??? The financial risk profile is expected to remain comfortable over the medium term driven by steady cash accruals and no major debt funded capex plans.

### **Weaknesses**

- **Moderate working capital management**

SVIAL's working capital is marked by high Gross Current Asset (GCA) days of 118 in FY2019 and 136 days in FY2018. The high GCA days emanate from high Other current assets of Rs. 26.03 crore as on 31st March, 2019 as against Rs 12.38 crore as on 31st March, 2018. Other Current Assets of Rs 26.03 crore as on 31st March, 2019 includes Prepaid expenses of Rs 0.12 crore, Interest receivables of Rs 0.10 crore, other receivables of Rs 11.67 crore, Loans and advances of Rs 12.93 crore and advance with revenue authorities of Rs 1.21 crore. The inventory days improved to 26 days in FY2019 as against 64 days in FY2018, and the debtors stood at 16 days in FY2019 as against 27 days in FY2018. The bank limit of the company remains utilized at ~60 per cent for 11 months ended September, 2019. The company's working capital operations are expected to remain moderate over the medium term.

- **Intense competition and inherent cyclicity 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.

### **Rating Sensitivity**

- Sustenance of profitability margins at over 9 -10 per cent
- Significant improvement in revenues

### **Material Covenants**

None

### **Liquidity Profile**

The company's liquidity profile is adequate marked by healthy net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs. 2.48-10.19 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs 0-1.11 crore over the same period. Further, the bank limit of the company remains utilized at ~60 per cent for 11 months ended September, 2019. The company maintains unencumbered cash and bank balances of Rs 0.19 crore as on 31st March, 2019. The current ratio of the company stands strong at 2.27 times as on 31st March, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

### **Outlook: Stable**

Acuité believes SVIAL will continue to benefit over the medium term its experienced management and established track record of operations, and comfortable financial risk profile. The outlook maybe revised to 'Positive' in case the company maintains strong growth in revenues and profit margins while maintaining its working capital management. Conversely, the outlook maybe revised to 'Negative' in case of significant deterioration in profitability and operating revenue leading to deterioration in its financial risk profile and working capital management.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	125.35	98.32
PAT	Rs. Cr.	7.68	3.07
PAT Margin	(%)	6.13	3.13
Total Debt/Tangible Net Worth	Times	0.36	0.70
PBDIT/Interest	Times	8.05	3.35

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

Care Ratings, vide its press release dated August 28, 2019 had denoted the rating of Sri Venkatesh Iron and Alloys India Limited as 'IND BB-/A4; ISSUER NOT COOPERATING'

### 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/criteria-default.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. Crore)	Ratings/Outlook
06-Nov-2018	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)
	Standby Line of Credit	Long Term	1.80	ACUITE A3 (Assigned)
	Bank guarantee/Letter of Guarantee	Short Term	2.50	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	0.70	ACUITE BBB-/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	7.50 (Reduced from Rs 12.00 crore)	ACUITE BBB/Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.00	ACUITE BBB/Stable (Withdrawn)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs 2.50 crore)	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.50 (Enhanced from Rs 0.70 crore)	ACUITE BB+/Stable (Reaffirmed)

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### About Acuité Ratings & Research:

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