

## Press Release

### Sri Venkatesh Iron and Alloys India Limited

January 07, 2021



### Rating Reaffirmed

<b>Total Bank Facilities Rated</b>	Rs. 17.00 crore
<b>Long Term Rating</b>	ACUITE BBB/ Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A3+ (Reaffirmed)

### Rating Rationale

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

Incorporated in 2005, Sri Venkatesh Iron and Alloys India Limited (SVIAL) is a Kolkata based company engaged in manufacturing of sponge iron with an installed capacity of 1,20,000 MTPA (4 kiln of 30,000 MTPA each). The manufacturing facilities are located at Ramgarh, Jharkhand. The company is currently headed by Mr. Kamal Kumar Agrawal, Mr. Ankit Kedia, Mr. Sushil Kumar Agrawal, Mr. Pawan Kumar Lohia, Mr. Mishank Kedia and Mr. Barun Singh. The company has its presence in the domestic market across various states like Madhya Pradesh, Uttar Pradesh, Rajasthan and other states in North India.

### 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 long track record of operations**

Established in 2005, SVIAL has a long operational track record of fifteen years 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. Acuité 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.

##### **• Healthy financial risk profile**

The company's healthy financial risk profile is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company increased to Rs.47.10 crores as on March 31, 2020, compared to Rs.41.08 crores on March 31, 2019 due to retention of profits. Acuité has considered unsecured loans of Rs.2.49 crores as on March 31, 2020 as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. The company's gearing stood comfortable at 0.27 times on 31 March, 2020 as against 0.36 times as on 31 March, 2019. The debt of Rs.12.82 crores mainly consists of unsecured loans of Rs.5.77 crores, cash credit of Rs.5.41 crores and maturing obligations of Rs.1.46 crores as on March 31, 2020. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 9.89 times in FY2020 and Debt Service Coverage Ratio (DSCR) at 4.24 times in FY2020. The NCA/TD(Net Cash accruals to total debt) stood at 0.55 times in FY2020. Acuité believes that going forward the financial risk profile of the company will remain at similar levels over the medium term backed by stable accruals and in the absence of debt funded capital expenditure plans.

##### **• Proximity to raw materials**

The company's manufacturing facilities are located at Jharkhand, which is in close proximity to various steel plants and various producers and dealers of its main raw materials (i.e. iron ore, coal and dolomite). Further,

[www.acuite.in](http://www.acuite.in)

the facilities are well connected through road and rail transport that ensures easy transportation of raw materials and finished goods. Proximity of the manufacturing facilities to source of raw-material and end market for its sponge iron results in lower transportation and logistics costs.

## Weaknesses

- **Working capital intensive operations**

The company's working capital intensive nature of operations is marked by high gross current asset (GCA) days of 173 in FY2020 compared to 118 days in FY2019. The GCA days are driven by increase in inventory days to 140 days in FY2020 as against 26 days in FY2019. The company maintained high inventory, especially of iron ore in anticipation of shortage during the period. The iron ore shortage is due to closure of 21 mines in March, 2020 after end of lease period and non-operation of newly-auctioned mines. The debtor days stood at 46 days in FY2020 as against 37 days in FY2019. Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company to ensure uninterrupted production.

- **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 including 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

- Improvement of working capital management
- Sustenance of the financial risk profile

## Material Covenants

None

### Liquidity Profile: Adequate

The company's liquidity position is adequate marked by healthy cash accruals of Rs.8.27 crores in FY2020 against debt repayments of Rs.1.46 crores during the same financial year. The current ratio stood strong at 2.81 times as on March 31, 2020 as compared to 2.27 times as on March 31, 2019. The fund based limit remains utilized at 79 percent over six months ended on October, 2020. SVIAL has neither availed loan moratorium nor availed covid loan. The unencumbered cash and bank balances stood at Rs.0.30 crores as on March 31, 2020. Acuité believes that the liquidity of the company will remain at similar levels on account of healthy cash accruals over the medium term.

### Outlook: Stable

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

## About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	98.48	125.35
PAT	Rs. Cr.	5.87	7.68
PAT Margin	(%)	5.96	6.13
Total Debt/Tangible Net Worth	Times	0.27	0.36
PBDIT/Interest	Times	9.89	8.05

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

Not Applicable

**Any other information**

Not Applicable

**Applicable Criteria**

- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>

**Note on complexity levels of the rated instrument**

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

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Dec-2019	Cash Credit	Long Term	7.50	ACUITE BBB/Stable (Upgraded)
	Standby Letter of Credit	Long Term	1.80	ACUITE BBB (Upgraded and Withdrawn)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Upgraded)
	Proposed bank facility	Long Term	4.50	ACUITE BBB/Stable (Upgraded)
06-Nov-2018	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Assigned)
	Standby Letter of Credit	Long Term	1.80	ACUITE BBB-/Stable (Assigned)
	Bank 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.) Crore	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/ Stable (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)

## Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 <a href="mailto:shubham.ghosh@acuite.in">shubham.ghosh@acuite.in</a>	

### About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.