

## Press Release

### Sri Venkatesh Iron and Alloys India Limited

April 04, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB   Positive   Reaffirmed   Stable to Positive	-
Bank Loan Ratings	5.00	-	ACUITE A3+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	17.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite 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 has been revised to 'Positive' from '**Stable**'.

The revision in outlook factors in the consistent improvement in the business risk profile of the company reflected from its steady growth in turnover and profitability apart from the sustenance in their healthy financial risk profile. The outlook revision also considers the improvement in the liquidity position of the company.

## About the Company

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 120,000 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

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

## Key Rating Drivers

## Strengths

## **Experienced management**

Established in 2005, SVIAL has a long operational track record of 15 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. 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.

## **Healthy profitability margin**

The operating profitability margin of the company has increased and stood healthy at 15.27 percent in FY2021 as compared to 10.80 per cent in the previous year. This significant increase in profitability margin is on account of increase in average sales realization during the period. Further the operating profitability of the company has also stood healthy at 15.49 per cent in 9MFY2022 (Prov). Acuité believes that the operating profitability margin of the company will be sustain at the same level over the near term backed by steady demand of sponge iron in the domestic market. The net profitability margin of the company has also increased and stood healthy at 10.26 per cent in FY2022 as compared to 5.96 per cent in the previous year. Acuité believes the profitability margin of the company will be sustained at healthy levels over the medium term backed by steady demand for sponge iron in the domestic market.

## **Comfortable financial risk profile**

The financial risk profile of the company is marked by moderate net worth, very low gearing and robust debt protection metrics. The net worth of the company stood moderate at Rs.56.77 crore in FY 2021 as compared to Rs. 47.10 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. Acuité has considered unsecured loan of Rs.2.63 crore as quasi equity, as the same amount is subordinated with bank debt. The gearing of the company stood comfortable at 0.16 times as on March 31, 2021 when compared to 0.27 times as on March 31, 2020. This improvement in overall gearing is on account of increase in networth during the period. Interest coverage ratio (ICR) is strong and stood 14.57 times in FY2021 as against 9.89 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood strong at 5.80 times in FY2021 as compared to 4.24 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 1.49 times in FY2021 and in 0.65 times the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy on account of healthy net cash accruals over the near term.

## **Weaknesses**

### **Highly competitive and fragmented 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

### **Working capital intensive nature of operation**

The working capital management of the company is marked by high GCA days of 181 days in FY2021 as compared to 173 days in FY2020. This high GCA day is mainly on account of high other current asset of Rs.29.82 crore in FY2021, which mainly consists of advance to suppliers & others of Rs18.43 crore, advance with revenue authorities of Rs.2.76 crore, advance for railway freight of Rs.0.34 crore. The inventory days of the company stood high at 96 days in FY2021 as compared to 140 days in the previous year. The collection period of the company

also stood comfortable at 06 days in FY2021 as compared to 09 days in the previous year. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

### Rating Sensitivities

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

### Material covenants

None

### Liquidity Position: Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.14.55 crore as against Rs.1.46 crore long term debt obligations in FY2021. The cash accruals of the company are estimated to remain in the range of around Rs. 24.97 crore to Rs. 27.88 crore during 2022-23 as against nil long term debt obligation in FY2022 and Rs.2.50 crore in FY2023. The current ratio of the company stood strong at 3.01 times in FY2021. The bank limit of the company has been ~42 percent utilized during the last six months ended in January 2022. However, the working capital intensive nature of the company is marked by high Gross Current Asset (GCA) days of 181 days in FY2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against negligible long debt repayments over the medium term.

### Outlook- Positive

Acuité believes that SVIAPL has consistently improved the business risk profile of the company as reflected from its substantial increase in scale of operations and maintenance in profitability parameters. Moreover, the company has been able to maintain its healthy financial risk profile apart from its adequate liquidity position. The rating may be upgraded if the company sustains the growth momentum while maintaining the operating profitability and the financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, deterioration in profitability metrics or deterioration in financial risk profile.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	118.56	98.48
PAT	Rs. Cr.	12.16	5.87
PAT Margin	(%)	10.26	5.96
Total Debt/Tangible Net Worth	Times	0.16	0.27
PBDIT/Interest	Times	14.57	9.89

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

Not Applicable

### 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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

<b>Date</b>	<b>Name of Instruments/Facilities</b>	<b>Term</b>	<b>Amount (Rs. Cr)</b>	<b>Rating/Outlook</b>
07 Jan 2021	Cash Credit	Long Term	7.50	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	4.50	ACUITE BBB   Stable (Reaffirmed)
05 Dec 2019	Proposed Bank Facility	Long Term	4.50	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Standby Line of Credit	Long Term	1.80	ACUITE BBB (Withdrawn)
	Cash Credit	Long Term	7.50	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
12 Nov 2018	Cash Credit	Long Term	12.00	ACUITE BBB-   Stable (Assigned)
	Standby Line of Credit	Short Term	1.80	ACUITE A3 (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB   Positive   Reaffirmed   Stable to Positive
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB   Positive   Reaffirmed   Stable to Positive

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### 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 8,850 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 Kanjurmarg, Mumbai.

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