



Press Release
SRI VENKATESH IRON AND ALLOYS INDIA LIMITED
June 29, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.50	ACUITE BBB Stable Reaffirmed Positive to Stable	-
Bank Loan Ratings	2.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	17.00	-	-

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 '**Stable**' from '**Positive**'.

Rationale for rating and revision in outlook

The rating takes into account the augmentation in business risk profile of the company reflected by healthy growth in revenue from operations over the years. The revenues of the company improved and stood at Rs.232.78 Cr. in FY2023 (Provisional) as against Rs.201.52 Cr. in FY2022. The improvement is majorly on account of the increase in average price realization of its product during the period. The rating also draws comfort from the established operations with experienced management of the company. The rating also factors in the healthy financial risk profile with low gearing levels, moderate net worth and comfortable debt protection matrices. The liquidity position of the company remains adequate with steady cash accruals against mature debt obligations.

However, the revision in outlook is majorly on account of the substantial deterioration in profitability of the company in last three years. The operating profit margin of the company declined to 10.46 percent in FY2023 (Provisional) as against 12.00 percent in FY2022 and 15.27 percent in FY2021 respectively. The decline is majorly on account of increase in raw material prices during the period. Furthermore, the company reported profit after tax of Rs.16.60 Cr. in FY2023 (Provisional) as against Rs.16.33 Cr. in FY2022. The rating is also constrained by working capital intensive nature of operations, cyclical nature of the steel industry and the volatility in commodity prices.

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

- **Steady business risk profile with 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.

Furthermore, the revenue from operations of the company stood at Rs.232.78 crore in FY2023 (Provisional) as against Rs.201.52 Cr. in FY2022 and Rs.118.56 Cr. in FY2021 respectively. The improvement in revenues is majorly on account of increase in volume sales as well as increase in average realization per unit of sponge iron during the period. The average realisation of sponge iron had increased to Rs.31635.63/MT in FY2023 as compared to Rs.29974.75/MT in FY2022.

Acuité believes that the revenue of the company will increase on account of increase in steady demand of sponge in domestic market.

- **Healthy financial risk profile**

The financial risk profile of the company remained healthy marked by moderate net worth, low gearing, and comfortable debt protection metrics. The net worth of the company stood moderate at Rs.76.25 crore as on 31 March 2022 as against Rs.59.40 crore as on 31 March 2021. Further, the tangible net worth of the firm increased to Rs.92.50 Cr as on March 31, 2023 (provisional). This improvement in networth is mainly due to the retention of current year profit. Acuite has also considered unsecured loan of Rs.3.15 crore as quasi equity, as the same amount is subordinated with bank debt. The gearing of the company stood low at 0.11 times as on March 31, 2022 and continued to remain at similar level at ~0.07 times as on March 31, 2023 (Provisional). This improvement in overall gearing is on account of increase in networth during the period.

The debt protection matrices of the company remain comfortable with Interest coverage ratio (ICR) of 40.73 times and 31.18 times respectively as on March 31, 2023 (Provisional). The net cash accruals to total debt (NCA/TD) stood healthy at 2.24 times in FY2022. The debt protection metrics will maintain the same level in FY 2023.

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 with no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operation**

The working capital management of the company is marked by moderate GCA days of 145 days in FY2022 as compared to 181 days in FY2021. This high GCA day is mainly on account of high other current asset of other receivables and recoveries. Further, the inventory days of the company stood high at 85 days in FY2022 as compared to 96 days in the FY2021. Moreover, the collection period of the company also stood comfortable at 07 days in FY2022 as compared to 06 days in FY2021. Acuité believes that the working capital operations of the firm will remain at the similar levels over the medium term.

- **Continuous deterioration in profitability**

The profitability of the company witnessed significant deterioration in last three years as reflected by decline in operating profit margin to 10.46 percent in FY2023 (Provisional) as

against 12.00 percent in FY2022 and 15.27 per cent in FY2021. This decline is majorly on account of increase raw material cost during the period. Furthermore, the company reported Profit After Tax (PAT) of Rs.16.60 crore in FY2023 (Provisional) as against Rs.16.33 crore in FY2022.

Acuité believes that the profitability of the company remain susceptible towards volatility in raw material prices and any movement in the profitability margins will continue remain a key rating sensitivity over the medium term.

- **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.

Rating Sensitivities

- Improvement of working capital management
- Sustenance of the financial risk profile
- Improvement in scale of operations and profitability

Material covenants

None

Liquidity Position Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.19.37 crore in FY2023 (Provisional) as against nil long term debt obligations over the same period. The current ratio of the company stood comfortable at 4.03 times in FY2022. Further, the average bank limit of the company has been moderate at ~49.49 percent utilized during the last six months ended in May 2023. However, the working capital-intensive nature of the company is marked by moderate Gross Current Asset (GCA) days of 145 days in FY2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against nil long debt repayments over the medium term.

Outlook: Stable

The revision in outlook majorly takes into account the deterioration in profitability metrics of the company which also remains below Acuité expectation for FY2023 (Provisional) and working capital intensive nature of operations. The rating may be revised to 'positive' if the company continues the growth momentum in operations and improvement in operating profitability along with a sustaining the healthy financial risk profile. Conversely, the outlook may be revised to 'negative' in case of lower than anticipated revenues, deterioration in profitability metrics or deterioration in financial risk profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	232.78	201.53
PAT	Rs. Cr.	16.66	16.33
PAT Margin	(%)	7.16	8.10
Total Debt/Tangible Net Worth	Times	0.07	0.11
PBDIT/Interest	Times	46.52	32.38

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Apr 2022	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	2.50	ACUITE BBB Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	9.50	ACUITE BBB Positive (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE BBB Stable Reaffirmed Positive to Stable
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB Stable Reaffirmed Positive to Stable

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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