

Press Release

Sundaram Steels Private Limited

December 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 7.50 crore bank facilities of Sundaram Steels Private Limited (SSPL). The outlook is '**Stable**'.

Incorporated in 2008, Jharkhand based SSPL commenced its operations in 2012 and is promoted by Mr. Mohit Jain, Mr. Amit Jain, Mr. Yogesh Manek and Mr. Anurag Singhania. The company is engaged in manufacturing of sponge iron with an installed capacity of 54,000 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Healthy financial risk profile**

The financial risk profile of the SSPL is marked by modest net worth, comfortable gearing and debt protection metrics. The net worth stood at Rs.22.63 crore in FY2018 as against Rs.21.56 crore. Acuité has considered Rs.2.72 crore of unsecured loan as quasi equity as the same has been subordinated to the bank. The gearing remained comfortable at 0.59 times as on March 31, 2018 as against 0.60 times in the previous year. The total debt of Rs.13.42 crore consist of long term borrowings of Rs.8.09 crore and short term financing of Rs.4.33 crore and unsecured loan of Rs.0.99 crore. In absence of any debt funded capex plan in the medium term, the gearing is expected to remain at comfortable levels. The debt protection metrics are healthy with interest coverage ratio (ICR) of 3.44 times and debt service coverage ratio (DSCR) of 1.50 times as on March 31, 2018. The net cash accruals against total debt stood at 0.30 times as on March 31, 2018 as against 0.20 times in the previous year. The debt protection measures of the company are expected to remain at healthy levels over the medium term on account of no significant debt contraction plans.

- **Experienced management**

The key promoters have more than a decade of experience in the steel industry prior to establishing SSPL. Their experience helped the company to establish long term relations with customers and suppliers and the same is reflected in steady growth in the scale of operations.

- **Moderate but growing scale of operations**

The revenues of SSPL have remained sluggish with a turnover of Rs.58.78 crore in FY2018 as against Rs.58.92 crore in FY2017. The same was on account of lower capacity utilisation at 66 percent in FY2017-18 compared to 74 percent in the preceding year. Improvement in sales realisation coupled with increase in capacity utilisation at 80 percent has resulted in revenue of Rs.42.16 crore as on September, 2018 (Provisional). The profitability also registered an improvement with EBITDA margins of 9.21 percent in FY2018 as against 6.67 percent in FY2017. Going forward, company's ability to improve its scale of operations in a sustainable manner and maintain the profitability will remain a key sensitivity monitorable.

Weaknesses

• Moderate working capital intensive operations

The operations of SSPL are moderately working capital intensive marked by Gross Current Asset (GCA) of 122 days in FY2018 as against 112 days in the previous year. The same emanates from credit period extended to customers of 51 days in FY2018 as against 27 days in FY2017. The inventory increased to 63 days in FY2018 from 50 days in FY2017.

• Intense competition and inherent cyclical nature of steel industry

SSPL is exposed to intense competition in steel sector due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, SSPL's business risk profile is exposed to the inherent cyclicity in these sectors.

Outlook: Stable

Acuite believes that SSPL will maintain a 'Stable' outlook over the medium term owing to the healthy financial risk profile and comfortable debt protection. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and the financial risk profile deteriorates owing to higher than expected increase in debt funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	58.78	58.92	45.65
EBITDA	Rs. Cr.	5.41	3.93	3.73
PAT	Rs. Cr.	1.07	-0.25	0.07
EBITDA Margin	(%)	9.21	6.67	8.18
PAT Margin	(%)	1.81	-0.42	0.15
ROCE	(%)	8.98	3.62	5.37
Total Debt/Tangible Net Worth	Times	0.59	0.60	0.83
PBDIT/Interest	Times	3.44	3.03	3.98
Total Debt/PBDIT	Times	2.18	3.14	4.79
Gross Current Assets (Days)	Days	122	112	178

Any other information

Not Applicable

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	5.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB- / Stable

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About Acuite Ratings & Research:

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