

Press Release

Sundaram Steels Private Limited (SSPL)

25 February 2020

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 39.54 Cr. (Enhanced from Rs.7.50 crore)
Long Term Rating	ACUITE BBB-/Negative (Rating Reaffirmed & Assigned, outlook revised from Stable)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.7.50 crore bank facility. Acuite has also assigned long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.32.04 crore of bank facilities of Sundaram Steels Private Limited (SSPL). The outlook is revised to '**Negative**' from 'Stable'.

The outlook revision takes into account a sharp decline in the operating profitability to 7.31 per cent in FY2019 as compared to 9.21 per cent in the previous year. The operating profitability margin of the company has further deteriorated to 4.72 per cent in 9MFY2019 (Provisional). This is mainly on account of increase in raw material price which could not be passed on to their customers. The company has incurred a capex of around Rs. 28 crore in the current fiscal which has been funded from Rs. 15 crore of bank borrowings and the rest from own sources. The said debt funded capex is expected to increase the interest burden going forward and hence put further pressure on the net profit margins of the company.

Incorporated in 2008, Varanasi based Sundaram Steel Private Limited is promoted by Mr Mohit Jain, Mr Amit Jain, Mr. Yogesh Manek and Mr. Anurag Singhania. The company is engaged in production of sponge iron with an installed capacity of 54000 MTPA. The manufacturing facility is located at Bokaro, Jharkhand. The company has now gone for forward integration and set up a manufacturing unit for MS Billet with an installed capacity of 100000 MTPA where commercial operations are yet to commence.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of SSPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management

The promoters of the company, Mr. Mohit Jain, Mr. Amit Jain, Mr. Yogesh Manke, Mr. Anurag Singhania have more than a decade experience in iron and steel industry. Acuite believes that YMSPL will continue to benefit from long experience of the management in establishing relations with their key suppliers and customers.

Comfortable financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and comfortable debt protection metrics. The net worth of the company stands healthy at Rs.33.23 crore in FY2019 as compared to Rs.22.63 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit and infusion of equity of Rs.1.91 crore and share premium of Rs.2.65 crore. Acuite has also considered unsecured loan of Rs. 7.35 crore as quasi equity as the same amount is subordinated to the bank debt. The gearing of the company stands low at 0.29 times as on March 31, 2019 when compared to 0.59 times as on March 31, 2018. The total debt of Rs.9.71 crore in FY2019 consists of short term loan of Rs.0.89 crore, unsecured loan from promoters of Rs.2.85 crore and short term debt of Rs 5.97 crore. Interest coverage ratio (ICR) is comfortable and stands at 3.07 times in FY2019 as against 3.44 times in FY 2018. The debt service coverage ratio also stands comfortable at 1.31 times in FY2019 as against of 1.51 times in FY2018. The net

cash accruals to total debt (NCA/TD) stand comfortable at 0.49 times in FY2019 as compared to 0.30 times in the previous year. Even though the company has contracted fresh loan of Rs. 14 crore for their forward integration unit, Acuite believes that the financial risk profile of the company would be maintained at comfortable levels over the medium term.

Moderate scale of operation

The revenue of the company stood moderate at Rs.102.34 crore in FY2019 as compared to Rs.58.78 crore in the previous year. This significant increase in revenue is mainly due to increase in capacity utilization to 95 per cent in FY2019 as against of 65 per cent in previous year, along with increase in average selling price to Rs.22000 MTPA in FY2019 from Rs.17000 MTPA in previous year. Moreover, company has booked Rs.85.22 crore revenue till 31st December 2019 (Prov.). The ability of the company to improve its scale going forward will remain a key rating sensitivity.

Weaknesses

Declining profitability margin

The operating profitability of the company has declined to 7.31 per cent in FY2019 as compared to 9.21 crore in FY2018. The operating profitability margin of the company has further deteriorated to 4.72 per cent in 9MFY2019 (Provisional). The net profitability of the company has declined and stood low at 1.39 per cent in FY2019 as compared to 1.81 per cent in previous year. It has further declined and stood low at 0.69 per cent in 9MFY2019.

Intense competition and inherent cyclical nature of steel industry

Competition in the Indian secondary steel industry is intense 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 SIPL's business risk profile is exposed to the inherent cyclicity in these sectors.

Rating Sensitivity

- Scaling up of operation while improving the profitability margin
- Deterioration in financial risk profile

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by modest net cash accruals of Rs.4.75 crore in FY2019 as against no major yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 4.09 crore to Rs. 6.78 crore during 2020-22 against Rs.2.40 of repayment obligations. The working capital intensity of the company is marked by gross current asset (GCA) days of 109 days in FY2019. The bank limit is 85 per cent utilized by the company for last six months ended 31st Jan 2020 (Prov.). The current ratio of the company stood at 1.55 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Negative

Acuite has revised that the outlook of SSPL to 'Negative' due to continuous decline in profitability margins. The revision in outlook also reflects Acuite's expectation of reduced financial flexibility to support increase in scale of operations. The rating may be downgraded in case any further deterioration in profitability margin or in financial risk profile of the company. Conversely, the outlook may be revised to 'Stable' in case of improvement in revenues and operating profitability margin.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	102.34	58.78
PAT	Rs. Cr.	1.42	1.07
PAT Margin	(%)	1.39	1.81
Total Debt/Tangible Net Worth	Times	0.29	0.59
PBDIT/Interest	Times	3.07	3.44

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-04.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
07-Dec-2018	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.90	ACUITE BBB-/Negative (Rating reaffirmed, outlook revised from Stable)
Term Loan	December 2019	Not Applicable	March 2026	5.87	ACUITE BBB-/Negative (Rating reaffirmed, outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.90	ACUITE BBB-/Negative (Assigned)
Term Loan	December 2019	Not Applicable	March 2026	9.13	ACUITE BBB-/Negative (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.56	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.18	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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