

Press Release

Satyam Iron & Steel Company Private Limited

18 August 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple BBB**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on Rs. 80.00 crore bank facilities of Satyam Iron & Steel company Private Limited (SISPL). The outlook is '**Stable**'.

Satyam Iron & Steel Company Private Limited (SISPL) was incorporated in August 2000 by Mr Gopal Kumar Agarwal and is engaged in manufacturing of sponge iron which is operational since 2001. The manufacturing unit is located at Raniganj, West Bengal, with an installed capacity of 60,000 tonnes per annum. In FY21, the company has undertaken a capex plan of around Rs 55 crore for setting up of billet and rolling mill which is funded through a mix of debt and equity ratio of 1.12:1 ratio.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SISPL to arrive at this rating.

Key Rating Drivers

Strengths

Long operational track record

SISPL has a long operational track record of almost two decades. The promoter of the company, Mr. Gopal Kumar Agarwal has more than 3 decades of experience in the steel industry through other group concerns such as BST Infratech Limited (rated at Acuite BBB+/Stable) and Manbhum Ispat Private Limited. Moreover, the company has a strong customer base which includes medium size steel players such as SPS Rolling Mills Limited; SRMB Srijan Private Limited; Shyam Steel Industries Limited among others. In FY21, SISPL has undertaken a debt-funded capex plan for setting up a billet plant with an installed capacity of 135000 tonnes per annum and a rolling mill with a capacity of 60,000 tonnes per annum. This is a forward integration project which is expected to be completed by the end of FY22. The entire project cost stood at around Rs 55 crore, which will be funded through Rs 30 crore of external debt and rest from internal sources. Acuite believes the scale of operation will improve in medium term backed by the addition of rolling mill and billet unit.

Comfortable financial risk profile and healthy profitability margins

The healthy financial risk profile is marked by its healthy net worth, nil gearing and debt protection ratio. The net worth of the company stood at Rs. 98.33 Cr. as on 31st March'2020(Provisional) as compared to Rs 83.80 Cr. in the previous year. This improvement was driven by the retention of profit. The company did not avail any fund based limits during FY19-FY20, so gearing and debt protection ratios stood strong. Going forward, Acuité believes the financial risk profile will be comfortable over the medium term despite ongoing capex because of low debt size and comfortable profitability margin.

Moreover, the company has a healthy profitability margin as reflected from its EBITDA margin and ROCE which stood at 12.1percent and 21.18 percent respectively during FY20 as against 16.36 percent and 34.80 percent in FY19. There was a decline in profitability margin because of fluctuation in raw material prices, which could not be entirely passed onto their customers. The profit margins of the company are expected to be maintained over the medium term backed by their long track record and increased operational synergies on account of forward integration.

Weaknesses

Moderate scale of operation

The company scale of operation has been modest as revenue stood at Rs125.24 crore in FY20 as against Rs 150.42 crore in FY19. Reason for this decline was due to a fall in average realization and sales volume of sponge iron. However, the management has undertaken a capex plan which will help to improve its topline in the medium term. Acuite believes the scale of operation will continue to remain at a similar level in FY21 as the company booked revenue of Rs 24.91 crore during Q1FY21.

Vulnerability of the steel market due to Covid-19

The demand for steel products is likely to be low in the near term as there is a fall in demand across end-users segments such as construction, engineering and real estate segments due to pandemic outbreak. The demand for a long product is directly dependent on primarily the construction segment thus making it susceptible to the downturn in the ongoing slowdown. The muted growth is expected to continue at least till H1FY'21 mainly due to constraints related to labour and disruptions in the supply chain. Hence, the demand for intermediate products will also remain low during H1FY21. Acuite expects the demand scenario to scale up from the second half of the current fiscal with rising demand from infrastructure and construction sectors.

Rating Sensitivity

- Substantial improvement in the scale of operation
- Deterioration in financial parameters

Material Covenant

None

Liquidity Profile: Strong

The company has strong liquidity as reflected from its free cash & bank balance of Rs 48.36 crores as on 31 March 2020(Provisional). Net cash accrual of the company stood comfortable at Rs 14.84 crore in FY20 (Provisional) with no repayment obligation. The company funds the entire working capital requirement through its internal accruals. However, the working capital requirement had increased in FY20, which is reflected from 144 GCA days in FY20 as against 92 days in FY19. This led to a decline in net cash from operation to Rs 11.34 crore in FY20 as against Rs12.80 crore in FY19. Current ratio of the company always been comfortable as it stood at 23.17 times in FY20 (provisional) as against 19.79 times. Acuite believes the company will continue to maintain adequate liquidity profile in medium term backed by modest cash accruals and ample cash balance.

Outlook: Stable

Acuite believes the outlook on the company will remain 'Stable' over the medium term backed by its long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' if the company is able to ramp up its scale of operations significantly along with sustaining their financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a decline in the scale of operation or profitability margin.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	150.42	130.14
PAT	Rs. Cr.	19.25	11.46
PAT Margin	(%)	12.79	8.81
Total Debt/Tangible Net Worth	Times	NA	0.13
PBDIT/Interest	Times	1159.10	192.30

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

NA

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/Stable (Assigned)
Proposed Bank Guarantee/LC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Assigned)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Tony Banerjee Rating Analyst Tel: 033-66201206 tonoy.banerjee@acuite.in	

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) for the latest information on any instrument rated by Acuité.