

Press Release

Satyam Iron And Steel Co Private Limited

March 25, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITÉ BBB**' (read as **ACUITÉ BBB**) on the Rs.15.00 crore bank facilities of Satyam Iron & Steel Company Private Limited (SISPL). The outlook is '**Stable**'.

The ratings reflect the increasing scale of operations of the company along with healthy profitability margin. The ratings also take into account the robust financial risk profile marked by healthy networth base, negligible gearing and strong debt protection metrics. In addition, the company has a superior liquidity profile as reflected from its high cash & bank balance. These credit strengths are partly offset by the company's working capital intensive nature of operations. Also, the company has undertaken a debt funded capital expenditure program which will lead to a slight moderation in their debt coverage and leverage indicators in the near term.

About the Company

Satyam Iron & Steel Company Private Limited (SISPL) was incorporated in August 2000 by Mr. Gopal Kumar Agarwal and is engaged in manufacturing 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.

Analytical Approach

Acuite has taken a standalone view of business and financial risk profile 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+/Negative) and Manbhum Ispat Private Limited. Moreover the company has a strong customer base which includes reputed steel players such as SRMB Srijan Private Limited (rated at Acuite A+/Stable); Shyam Steel Industries Limited among others. The company has

undertaken a large capex plan to set up a billet, rolling mill and 15 MW of captive power plant apart from capacity enhancement of their sponge iron unit. The project will integrate the company's operation and expand their product profile. The company had witnessed an improvement in scale of operation as revenue stood at Rs155.36 Cr in FY21 as against Rs

126.01 Cr in FY20. The improvement is driven by rise in average realization of sponge iron. In FY22, the scale of operation will improve as company has already registered revenue of Rs 213 Cr till February 2021 (Provisional). Acuite believes scale of operation will improve over the medium term backed by capacity addition.

Robust financial risk profile

The financial risk profile of the company is marked by its healthy net worth, low gearing and strong debt protection ratio. The net worth of the company stood at Rs.117.94 Cr. as on 31st March'2021 as compared to Rs 98.21 Cr. in the previous year. The gearing of the company stood comfortable at 0.29 times as on 31st March 2021. SISPL had availed Rs 1.23 Cr of vehicle loan and Rs 33 Cr of overdraft facilities (against Fixed deposit) in FY21 which depicts company's low reliance on debt. TOL/TWN stood at 0.36 times in FY21 as against 0.04 times in FY20. The interest coverage ratio stood strong at 26.00 times as on 31st March, 2021. Net cash accruals to Total Debt (NCA/TD) stood at 0.59 times in FY2021. Acuite believes the financial risk profile to remain at comfortable levels despite the ongoing large debt funded capex plan.

Healthy profitability margins

The company has a healthy profitability margin as reflected from its EBITDA margin and RoCE which stood at 16.08 percent and 22.36 percent respectively during FY21 as against 12.67 percent and 21.32 percent in FY20. The improvement in profitability margin because of decline in raw material cost. The company has posted EBITDA margin of around 16.23 percent during 11MFY22. The profit margins of the company are expected to remain healthy over the medium term backed by captive consumption of intermediate goods and power.

Weaknesses

Near term capex plan to increase debt levels

The company has undertaken a large debt funded expansion project to integrate its operation. The project includes capacity enhancement in sponge iron unit to 120,000MTPA with setting up of 135,000 MTPA of billet unit, 60,000 MT of rolling mill and 15 MW of captive power plant. The project cost for the forward integration project is around Rs 180 Cr which is being funded through a mix of debt and equity in 1.3:1 ratio. Till date, the company has incurred capex of around Rs 96 Cr which is funded through Rs 51 Cr of bank loan and remaining Rs 45 Cr from internal accruals. The proposed facilities are likely to be operational by Q2FY23. Acuite believes the coverage and leverage ratios of the group will witness moderation over the medium term because of the rise in the debt levels.

Cyclical nature of the industry

The company's performance remains vulnerable to cyclicity in the steel sector as demand for steel depends on performance of end user segments such as construction and real estate. Indian steel sector is highly competitive due to presence of large number of players. The operating margin of the company is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from intermediate goods.

Rating Sensitivities

- Timely completion of ongoing capital expenditure
- Sustainability in profitability margins
- Healthy revenue growth

Material covenants

Not Applicable

Liquidity profile: Adequate

The company has superior liquidity profile as reflected from its free cash & bank balance of Rs 28 crores as on 31 March 2021. Net cash accrual of the company stood comfortable at Rs 20 crore in FY21 with minimal repayment obligation. The company funds the entire working capital requirement through its internal accruals. However, the working capital requirement had increased in FY21 which is reflected from 161 GCA days in FY21 as against 145 days in FY20. Current ratio of the company stood comfortable at 2.34 times in FY21. The repayment of term loan related to ongoing capex plan will commence from FY24 and hence the company does not have any principal repayment obligations in FY23. Further the company will maintain a DSRA of amount equivalent to one quarter of interest and principal obligations. Acuite believes the company will continue to maintain superior liquidity profile in medium term backed by healthy cash accruals and ample cash balance.

Outlook: Stable

Acuite believes the outlook on 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 substantial decline in scale of operation or profitability margin.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	155.38	126.01
PAT	Rs. Cr.	19.73	14.41
PAT Margin	(%)	12.70	11.43
Total Debt/Tangible Net Worth	Times	0.29	0.00
PBDIT/Interest	Times	26.02	1909.81

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>
- 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 May 2021	Proposed Cash Credit	Long Term	30.00	ACUITE BBB (Withdrawn)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A3+ (Withdrawn)
	Proposed Term Loan	Long Term	30.00	ACUITE BBB (Withdrawn)
18 Aug 2020	Proposed Cash Credit	Long Term	30.00	ACUITE BBB Stable (Assigned)
	Proposed Term Loan	Long Term	30.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Term Loan	08-01-2021	7.85	31-03-2029	15.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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