

Press Release

Satyam Iron And Steel Co Private Limited

December 05, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	68.00	ACUITE BBB Negative Assigned	-
Bank Loan Ratings	140.00	ACUITE BBB Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	10.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	218.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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.150.00 Cr bank facilities of Satyam Iron and Steel Co Private Limited (SISCPL). The outlook has been revised from '**Stable**' to '**Negative**'.

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.68.00 Cr bank facilities of Satyam Iron and Steel Co Private Limited (SISCPL). The outlook is '**Negative**'.

Rationale for the rating

The revision in outlook is on account of expected moderation in gearing ratios due to addition of fresh debt to fund the incremental project cost. The ongoing expansion project has witnessed time overrun along with slight cost overrun. Further, there is also a change in scope of project which has also contributed to the incremental project cost. The change in outlook envisages the high implementation risk in the ongoing and cyclical nature of the steel industry.

However, the rating also reflects the steady growth in the scale of operations of the company coupled with healthy profitability margins. The rating also derives comfort from the experienced management, long standing operations of the company and the comfortable financial risk profile characterized by comfortable gearing and strong debt coverage indicators.

About the Company

Incorporated in 2000, Satyam Iron & Steel Co Private Limited (SISCPL) is headed by Mr Gopal Kumar Agarwal and is engaged in the manufacturing of sponge iron. The manufacturing unit is located at Raniganj, West Bengal, with an installed capacity of 60,000 tonnes per annum. Recently company has added and commissioned additional 60,000 MT sponge iron.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long standing operations and experienced promoters**

SISCP has a long presence in the industry of over two decades. The promoter of the company, Mr. Gopal Kumar Agarwal has more than three decades of experience in the steel industry. Moreover, the company has established a strong customer base and includes SRMB Srijan Private Limited (rated at Acuite A+/Stable), Shyam Steel Industries Limited, among others. Acuité believes that the experienced management, the long track record of the company along with the strong clientele base will continue to aid the operations of the company to achieve the future growth plans.

- **Forward integration project**

The company has undertaken expansion cum forward integration which includes enhancement of sponge iron capacity to 1,20,000MT along with addition of 1,35,000 MT of billet capacities, 1,20,000MT of Rolling capacity and 15 MW captive power plant. The current cost of the project is around Rs.289.30 Cr whereas, the initial cost was Rs.180.75 Cr. The cost is mostly funded through external debt. However, the cost of project and timeline has been revised due to change in scope. The expansion capex plan is now expected to be completed by Q4FY23. The expansion programme will help to improve scale of operation and operational efficiencies.

- **Steady growth in the level of operating income with healthy margins**

The company has witnessed revenue growth of around 56 per cent during FY2022 and achieved revenues of Rs.241.87 Cr as compared to Rs.155.38 Cr in FY2021. Further, till September, 2022, it has achieved revenues of Rs.143.87 Cr (provisional). The consistent improvement is on account of increase in the average realization of sponge iron due to buoyancy in the steel industry. Acuite believes the scale of operation will grow over the medium term backed by implementation of expansion project.

However, the operating margin of the company stood at 12.79 per cent in FY2022 as against 16.08 per cent in FY2021. The decline in the margin is due to rise in the raw material cost which could not be passed on to the end user. The PAT margin dipped to 9.22 per cent in FY2022 from 12.70 per cent in FY2021 due to the increase in the finance costs over the same period. Profit margin is expected to improve in medium term because of integrated operation.

- **Comfortable financial risk profile**

The company's financial risk profile is reflected by high net worth base, comfortable gearing and strong debt protection measures. The tangible net worth of the company increased to Rs.140.24 Cr as on March 31, 2022 from Rs.117.94 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood below unity at 0.68 times as on March 31, 2022 as compared to 0.29 times as on March 31, 2021, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.75 times as on March 31, 2022 as against 0.36 times as on March 31, 2021. Moreover, the strong debt coverage metrics is marked by Interest Coverage Ratio (ICR) at 13.10 times as on March 31, 2022 and Debt Service Coverage Ratio at 10.07 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.25 times as on March 31, 2022. Acuité believes that leverage ratios would witness moderation over the medium term due to the ongoing capex.

Weaknesses

• Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by gross current asset (GCA) of 156 days in FY2022 as against 225 days in the previous year. The high level of GCA days are primarily on account of high inventory requirement. The inventory period stood at 80 days as on 31st March, 2022 as compared to 145 days as on 31st March, 2021. The company holds large inventory of iron ore and coal in order to mitigate price fluctuation risk. However, the debtor period stood comfortable at 9 days as on March 31, 2022 as compared to 32 days in the previous year. Acuité believes that the working capital management of the company will remain intensive over the medium term as evident from the high inventory holding.

• Revised project scope

The company has revised the pre-determined unit of capacity installation of the rolling mills to 1,20,000 MTPA from 60,000 MTPA. The revision extended the expected date of completion of Q2FY23 to March, 2023 with anticipated commercial operations starting in April, 2023. The total cost determined at the beginning of the project was Rs.180.75 Cr which increased to Rs.289.30 Cr. The increased expenditure is to be financed by internal accruals and term loan from the bank for which additional debt of RS.68 Cr has already been sanctioned. Acuité believes that the rise in the debt burden will lead to moderation in the leverage ratios over the medium term.

Rating Sensitivities

- Growth in the scale of operations
- Elongation in the working capital cycle
- Sustenance of the capital structure
- Timely completion of the ongoing project

Material covenants

None

Liquidity position: Strong

The company's liquidity position is strong marked by net cash accruals of Rs.23.37 Cr in FY2022 as against no long term debt repayment over the same period. The current ratio stood robust at 4.33 times as on 31st March, 2022 as compared to 3.15 times as on 31st March, 2021. The cash and bank balances of the company stood at Rs.19.10 Cr. Moreover, the fund based limit utilization of the company is nil over the six months ended October, 2022. However, the working capital management of the company is intensive in nature marked by Gross Current Assets (GCA) of 156 days in FY2022 as compared to 225 days in FY2021. Acuité believes that going forward the company's liquidity position will remain adequate due to steady net cash accruals.

Outlook: Negative

Acuité has revised the outlook to 'Negative' on account of time and cost overrun in the forward integration capex program with higher than expected deterioration in the gearing ratios on account of infusion of fresh debt to fund the incremental project cost. The rating may be 'downgraded' in case of further time or cost overrun in the project along with significant stress in the liquidity profile. The outlook may be revised to 'Stable', if the company showcases timely execution of the project plans without significant liquidity stress on the cash flow requirements of its existing operations along with healthy revenue growth.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	241.87	155.38
PAT	Rs. Cr.	22.31	19.73
PAT Margin	(%)	9.22	12.70
Total Debt/Tangible Net Worth	Times	0.68	0.29
PBDIT/Interest	Times	13.10	26.02

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-52.htm>
- Manufacturing Entities: <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

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
31 Mar 2022	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	85.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
25 Mar 2022	Term Loan	Long Term	15.00	ACUITE BBB Stable (Assigned)
27 May 2021	Proposed Bank Guarantee	Short Term	20.00	ACUITE A3+ (Withdrawn)
	Proposed Term Loan	Long Term	30.00	ACUITE BBB (Withdrawn)
	Proposed Cash Credit	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Term Loan	Aug 1 2021 12:00AM	8.30	Mar 31 2030 12:00AM	Simple	85.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Term Loan	Aug 1 2021 12:00AM	8.30	Mar 31 2030 12:00AM	Simple	15.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Term Loan	Aug 1 2021 12:00AM	8.30	Mar 31 2030 12:00AM	Simple	68.00	ACUITE BBB Negative Assigned

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in</p> <p>Geeta Karira Analyst-Rating Operations Tel: 022-49294065 geeta.karira@acuite.in</p>	<p>Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in</p>

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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