



Press Release
Satyam Iron & Steel Company Private Limited
August 31, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	208.00	ACUITE BBB Stable Reaffirmed Negative to Stable	-
Bank Loan Ratings	10.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	218.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating at '**ACUITÉ BBB**' (read as **ACUITÉ triple B**) and the short-term rating at '**ACUITÉ A3+**' (read as **ACUITÉ A three plus**) on the Rs. 218.00 Cr bank facilities of Satyam Iron & Steel Co Private Limited (SISCPL). The outlook has been revised from '**Negative**' to '**Stable**'.

Rationale for rating and revision in outlook

The revision in outlook is primarily driven by the timely completion of SISCPL's forward integrated capex project along with the commercial operations starting within the expected timeline. The outlook revision also takes into account the growth in the scale of operations backed by the integrated nature of operations. The company has registered 44 per cent growth in the operating income and has achieved revenues of Rs.349.40 Cr in FY2023 (Provisional) as compared to Rs.241.87 Cr in FY2022.

The rating further factors in the above average financial risk profile of the company as reflected by the comfortable debt coverage indicators and the improving networth base coupled with the lower than expected deterioration in the gearing levels in FY2023. The rating also considers improvement in the liquidity position of the company due to low fund based bank limit utilisation and improvement in the working capital management.

However, Acuite also notes that the company's operating costs remained at a higher level leading to deterioration in the profitability margins. The rating strengths are further offset by the cyclicity of the steel industry.

About the Company

Based in West Bengal, Satyam Iron & Steel Co Private Limited (SISCPL) was incorporated in the year 2000 and is promoted by Mr Gopal Kumar Agarwal. The company is engaged in the manufacturing of sponge iron and has also forayed into the production of billet and MS Strips in FY2023. SISCPL has undergone a capex project to enhance the company's overall scope of production. Currently, the capacity of the sponge iron unit has been increased to 120000 TPA from 60000 TPA. Along with this, the company newly installed a billet unit with a capacity of 135000 TPA, a 60000 TPA Rolling Mill for MS Strips and a 15 MW captive power plant.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SISCPL to arrive at the rating.

Key Rating Drivers

Strengths

Long standing operations and experienced promoters

The company has established a strong presence in the industry with operations spanning over two decades. SISCPL is managed by Mr. Gopal Kumar Agarwal, having more than three decades of industry knowledge. Moreover, the company has a strong customer base and includes SRMB Srijan Private Limited (rated at Acuite A+/Stable); Shyam Steel Industries Limited, among others.

Acuité believes that, going forward, the company's long track record of operations and the strong clientele base aided by the experienced management will continue to benefit the operations of SISCPL.

Growth in the scale of operations backed by integrated nature of operations

The operations of the company are supported by the integrated nature of operations. SISCPL's manufacturing unit comprises of capacities for sponge iron, billets, MS strips and a captive power plant. The integrated operations provide a competitive edge over the competitors. Also, the captive power plant aids in power cost saving.

Moreover, the company has registered 44 per cent growth in the operating income and has achieved revenues of Rs.349.40 Cr in FY2023 (Provisional) as compared to Rs.241.87 Cr in FY2022. Further, it has achieved revenues of Rs.129.73 Cr in Q1 of FY2024 (Provisional). The rise in the revenue levels are supported by the integrated operations and capacity additions.

Acuité believes that the scale of operations of the company will continue to remain healthy backed by rise in the capacity utilisation over the medium term.

Above average financial risk profile

The company's above average financial risk profile is reflected by improving net worth base, moderate gearing and healthy debt protection measures. The tangible net worth of the company increased to Rs.156.75 Cr as on March 31, 2023 (Provisional) from Rs.140.24 Cr as on March 31, 2022 due to accretion of reserves. Going forward, in FY2024 the company has decided to increase the equity by Rs.9.23 Cr which was infused as unsecured loans in FY2023. Gearing of the company moderated to 1.02 times as on March 31, 2023 (Provisional) as compared to Rs.0.68 times as on March 31, 2022 due to addition of debt owing to capex undertaken. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.23 times as on March 31, 2023 (Provisional) as against 0.75 times as on March 31, 2022. However, the debt coverage indicators stood comfortable marked by Interest Coverage Ratio (ICR) at 8.60 times and Debt Service Coverage Ratio at 6.79 times as on March 31, 2023 (Provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.09 times as on March 31, 2023 (Provisional).

Acuité believes that, the financial risk profile of the company will remain above average over the medium term backed by the improving cash accruals.

Weaknesses

Decline in the profitability margins

The operating margin of the company dipped to 5.97 per cent in FY2023 (Provisional) from 12.79 per cent in FY2022. The decline in the margin is due to rise in the raw material cost which could not be passed on to the end user. Also, the price of finished goods did not increase in tandem with the rise in the cost of goods sold. The PAT margin declined to 3.39 per cent in FY2023 (Provisional) from 9.22 per cent in FY2022.

Acuité believes that, going forward, improvement in the profitability margins will be a key rating sensitivity.

Cyclical nature of the industry

The company's performance remains vulnerable to cyclical nature 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 as well as realization from intermediate goods.

Rating Sensitivities

- Growth in the scale of operations
- Sustenance of the capital structure
- Elongation in the working capital cycle
- Improvement in the profitability margins

All Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.14.86 Cr in FY2023 (Provisional) as against no long term debt repayment over the same period. The current ratio stood high at 2.75 times as on 31st March, 2023 (Provisional) as compared to 4.33 times as on 31st March, 2022. The cash and bank balances of the company stood at Rs.1.30 Cr as on 31st March, 2023 (Provisional). Moreover, the fund based limit utilization stood low at 20 per cent over the six months ended June, 2023. However, the working capital management of the company is intensive in nature marked by Gross Current Asset (GCA) days of 118 days in FY2023 (Provisional) as against 156 days in the previous year.

Acuité believes that going forward the liquidity position of the company will remain adequate over the medium term owing to the improving cash accruals.

Outlook: Stable

Acuité has revised the outlook to 'Stable' on account of the timely completion of the capex project without significant liquidity stress on the cash flow requirements of its existing operations along with healthy revenue growth backed by its long track record of operations and above average 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 with improvement in the profitability margins and liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of substantial decline in scale of operations or profitability margins or in case of deterioration in financial risk profile or further elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	349.40	241.87
PAT	Rs. Cr.	11.86	22.31
PAT Margin	(%)	3.39	9.22
Total Debt/Tangible Net Worth	Times	1.02	0.68
PBDIT/Interest	Times	8.60	13.10

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>
- 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
05 Dec 2022	Term Loan	Long Term	85.00	ACUITE BBB Negative (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	68.00	ACUITE BBB Negative (Assigned)
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 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	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 Stable Reaffirmed Negative to Stable
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	32.35	ACUITE BBB Stable Reaffirmed Negative to Stable
Canara Bank	Not Applicable	Term Loan	01 Aug 2021	8.30	31 Mar 2030	Simple	15.00	ACUITE BBB Stable Reaffirmed Negative to Stable
Canara Bank	Not Applicable	Term Loan	01 Aug 2021	Not available	31 Mar 2030	Simple	85.00	ACUITE BBB Stable Reaffirmed Negative to Stable
Canara Bank	Not Applicable	Term Loan	01 Aug 2021	Not available	31 Mar 2030	Simple	35.65	ACUITE BBB Stable Reaffirmed Negative to Stable

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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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