

Press Release

Ganpati Sponge Iron Private Limited

December 17, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple BBB**) on the Rs 15.00 crore bank facilities of Ganpati Sponge Iron Private Limited (GIPL). The outlook is '**Stable**'.

Sambhv Sponge Power Private Limited was acquired by the Raipur based Goyal family in 2017. The company is engaged in manufacturing of sponge iron and billet. The company has installed capacity of 100,000 MT per annum for sponge Iron and 150,000 MT per annum for billet. SSPL also has a 15 MW captive power plant.

The billet unit and captive power plant are operational since December 2019. The company has undertaken a capex plan to set up a 100,000 MTPA of rolling mill which is expected to be complete by Q4FY21.

Ganpati Sponge iron Private Limited (GSIPL) is engaged in manufacturing of strip & channel with an installed capacity of 75,000 MT per annum. The company has also billet unit of 75,000 MT per annum. The production unit is located in Raipur.

S.Pyarelal Ispat Private Limited (SPIPL) manufactures billet & structure product. The installed capacity for billet unit is 72000 MT per annum. The production unit is located at Raipur. The company also has structural capacity of 72000 MT per annum.

Analytical Approach:

Acuité has taken the consolidated view of Sambhv Sponge Power Private Limited, Ganpati Sponge Power Private Limited and S.Pyarelal Ispat Private Limited as all the 3 companies are in the same line of business, share common management and have strong operational and financial linkages (GSIPL and SPIPL procure sponge iron from SSPL) and GSIPL holds around 17 percent of shares in SSPL. The group herein is referred to as Sambhv Group.

Key Rating Drivers:

Strengths

Experienced management and integrated nature of operations

The Sambhv group is promoted by Goyal family of Raipur (Chattisgarh). The group is managed by Mr. Suresh Kumar Goyal, who has more than one decade of experience in the steel business. The group has integrated operations with capacities to produce sponge iron, steel billets and long products across three companies – SSPL, GSIPL and SPLPL. The aggregate installed capacity of the Sambhv Group is 100,000 MT of sponge iron, 297,000 MT of billets and 147,000 MT of rolled steel products. The sponge iron requirement of GSIPL and SPIPL is partially met by SSPL. The latter has undertaken a capex for setting up a rolling mill with an installed capacity of 100,000 MT per annum which is expected to be commercialized by Q4FY21. The project cost for this ongoing capex plan is Rs 41 Cr which is funded through a mix of debt and equity in 1.5:1 ratio. The ongoing capex will help the group to improve its scale of operation in medium term and further improve their operating efficiencies.

Comfortable financial risk profile

The financial risk profile of the group is marked by healthy net worth, modest gearing ratio and comfortable debt protection metrics. The net worth of the group has improved to Rs.101.66 Cr in FY2020 from Rs.57.92 Cr in FY2019 due to infusion of Rs 27.15 crore of equity including securities premium and quasi equity. Acuité has treated unsecured loans of Rs 24.65 Cr in Sambhv Sponge as part of networth as the amount is subordinated to external debt. The gearing of the group stood at 1.46 times as on March 31, 2020 as compared to 1.96 times as on March 31, 2019 due to improvement in net worth. The total debt of Rs.148.56 Cr in FY2020 consists of long-term debt of Rs.91.05 Cr, short-term loan of Rs. 56.13 Cr and unsecured loan from promoters of Rs.

1.37 Cr. Interest coverage ratio (ICR) stood comfortable at 3.01 times in FY2020 as against 4.22 times in FY2019. The debt service coverage ratio (DSCR) stood at 1.89 times in FY2020 as against 2.63 times in FY2019. This deterioration in DSCR is on account of a rise in financial cost due to the ongoing debt led capex. The net cash accruals against total debt (NCA/TD) stood at 0.16 times in FY2020 as compared to 0.20 times in previous year. Acuité believes the financial risk profile of the group will remain comfortable over the medium term backed by steady accruals and in the absence of any large debt funded capex plan other than the envisaged.

Healthy scale of operation and steady profitability margin

The group had witnessed an improvement in scale of operation as revenue of the group stood at Rs 583.81 crore in FY20 as against Rs 561.86 crore in FY19. This improvement is driven by a rise sales volume of billet and rolled products. Profitability of the group stood comfortable level during FY20 as EBITDA margin stood at 6.56 percent as compared to 6.50 percent in FY19. However, ROCE of the group had declined to 16.18 percent in FY20 from 20.88 percent in FY19 because of continuous capex in SSPL. Acuité believes the scale of operation will improve and profitability will continue to remain at comfortable level in medium term backed by a rise in capacity utilization of billet unit and captive power plant.

Weaknesses

Cyclical nature of the industry

The group performance remains vulnerable to cyclical 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 group is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods.

Continuing debt funded capital expenditure

The sambhv group has continuously incurred capital expenditure in the past 2-3 years ended FY'2020. The capex has been largely to integrate operations within the group to ensure better synergies. The group has incurred capex of around Rs.120 Cr in the past 3 years enhancing their capacities in sponge iron, billets and captive power plant. The said capex has been funded through an equitable mix of own funds and external borrowings. However, going forward, the group would focus primarily on consolidating their incremental capacities to enjoy sustained profit margins. Acuité believes that any unplanned debt funded capex plan would be a key rating sensitivity factor.

Rating Sensitivity

- Sustainability in revenue growth and profitability margins
- Substantial deterioration in financial risk profile

Material Covenant

None

Liquidity Position: Adequate

The Sambhv group has adequate liquidity profile as reflected from low utilization of working capital limits ranging from 60 percent to 90 percent during the last12 months ended September 2020. In addition, group has comfortable net cash accrual of Rs. 23.85 Cr during FY20 as against current maturity of around 10.00 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 28 Cr as against current maturity of around Rs.12 Cr from FY21-FY23. Current ratio stood comfortable at 1.37 times during FY20. The working capital requirement of the group stood modest level as reflected from GCA days of 89 days as on 31 March 2020. Acuite believes the liquidity position of the group will remain adequate backed by steady cash flow and accrual over the medium term.

Outlook: Stable

Acuite believes that Sambhv group will benefit over the medium term from the promoters vast experience in the steel industry. The outlook may be revised to 'Positive' if Sambhv group is able to improve their operating efficiencies post their capex. Conversely, the outlook may be revised to 'Negative' if the group witnessed significant deterioration in financial risk profile or liquidity profile due to unplanned debt led capex plan.

About the Rated Entity - Consolidated

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	583.81	561.86
PAT	Rs. Cr.	16.10	15.06
PAT Margin	(%)	2.76	2.68
Total Debt/Tangible Net Worth	Times	1.46	1.96
PBDIT/Interest	Times	3.03	4.22

About the Rated Entity – Standalone

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	249.92	272.91
PAT	Rs. Cr.	2.38	4.51
PAT Margin	(%)	0.95	1.65
Total Debt/Tangible Net Worth	Times	1.10	1.20
PBDIT/Interest	Times	2.74	4.04

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>

Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Consolidated - <https://www.acuite.in/view-rating-criteria-60.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB/Stable (Assigned)
Term Loan	Not Available	Not Available	June 2022	1.50	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research:

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