

Press Release

Ganpati Sponge Iron Private Limited

July 07, 2021

Rating Upgraded



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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) from '**ACUITE BBB**' (read as **ACUITE Triple B**) on the Rs 15.00 Cr bank facilities of Ganpati Sponge Iron Private Limited (GIPL). The outlook is '**Stable**'.

The revision in rating reflects Sambhv Group's strong operational performance along with an improving financial risk profile. The group had witnessed a healthy revenue growth in FY21 on account of increase in both sales volumes and the average realization of both intermediate and finished goods. In addition, the Group has also witnessed an improvement in its profit margin during FY21 due to increase in captive consumption of power and sponge iron. The rating also factors in the group's healthy financial risk profile marked by healthy net worth and a conservative capital structure. These rating strengths are partially offset by the cyclical nature of the steel industry.

Ganpati Sponge iron Private Limited (GIPL) is engaged in manufacturing of strip & billet with an installed capacity of 75,000 MT per annum each. Recently the company has added MS Pipe manufacturing unit with an installed capacity of 150,000 MT per annum which is operational since December 2020.

About Group

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 150,000 MTPA of rolling mill which is expected to be complete by Q2FY22.

S.Pyarelal Ispat Private Limited (SPIPL) manufactures billet & structural product. The installed capacity for billet unit and structural is 72000 MT per annum each.

All manufacturing units are located in Raipur.

Analytical Approach:

Acuité has taken a 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. In addition, GIPL holds around 17 percent of shares in SSPL. The group herein is referred to as Sambhv Group.

Extent of consolidation: Full

Key Rating Drivers:

Strengths

Integrated nature of operations along with increase in scale of operation

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. SSPL has undertaken a capex for setting up a rolling mill with an installed capacity of 150,000 MT per annum as against initial plan of 100,000 MT per annum which is expected to be commercialized by Q2FY22. Accordingly, the project cost for this ongoing capex plan has increased to Rs 58 Cr from Rs 41 Cr. The revised project cost will be funded through a mix of debt and equity in 1:1 ratio. The ongoing capex will help the group to enhance its scale of operation further over the medium term and improve its operating efficiencies. SSPL is planning to undertake another capex plan of Rs 25 Cr in FY22 for setting up a 150,000 MT per annum of MS Pipe manufacturing unit. The same will be funded mostly through external debt. The group's consolidated revenues stood at Rs 986.3 Cr in FY21 (Provisional) as against Rs 583.0 Cr in FY20 thus registering a robust y-o-y growth of 68 percent. This improvement is driven by the rise in capacity utilization of newly added billet unit in SSPL along with increase in average realization of intermediate and finished goods. Acuite believes the scale of operation will improve further over the medium term with the completion of the rolling mill project.

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, modest gearing ratio and strong debt protection metrics. The net worth of the group has improved to Rs 141.3 Cr in FY2021 (Provisional) from Rs.101.8 Cr in FY2020. Acuite has treated unsecured loans of Rs 24.6 Cr as part of networth as the amount is subordinated to bank debt. The gearing of the group stood at 1.33 times as on March 31, 2021 (Provisional) as compared to 1.46 times as on March 31, 2020. The total debt of Rs.188 Cr in FY2021 consists of long-term debt of Rs. 136.22 Cr, short-term loan of Rs. 43 Cr and unsecured loan from promoters of Rs. 8 Cr. TOL/TNW stood at 1.71 times in FY21 (Provisional) as against 1.94 times in FY20. Interest coverage ratio (ICR) stood strong at 4.23 times in FY2021 (Provisional) as against 3.03 times in FY 2020. The debt service coverage ratio (DSCR) at 2.35 times in FY2021 (Provisional) as against 1.89 times in FY2020. The improvement in coverage ratio is on account of rise in profit margin. Acuite believes the financial risk profile of the group will remain comfortable over the medium term backed by steady accruals and the absence of any large debt funded capex plan other than those already envisaged by the management.

Improvement in profitability margin

Profitability of the group stood comfortable during as EBITDA margin stood at 8.22 percent in FY21 (Provisional) as compared to 6.56 percent in FY20. PAT margin stood at 3.98 percent in FY21 (Provisional) as against 2.76 percent in FY20. The improvement is on account of increase in captive consumption of intermediate products and power which has led to better operating efficiencies. Acuite believes Sambhv Group's profitability will continue to remain at a comfortable level in medium term backed by forward integration in SSPL through addition of upcoming rolling mill and MS Pipe unit.

Efficient working capital management

The group has a low working capital requirement as reflected from its Gross Current Asset (GCA) days which stood at 61 days in FY21 (Provisional) as against 91 days in FY20. Reason for low GCA days is comfortable debtor days of 10 days in FY21. Inventory days stood at 26 days in FY21 as against 44 days in FY20. Acuite believes the working capital intensity will remain at similar levels over the medium term.

Weaknesses

Cyclical nature of the industry

The group performance remains vulnerable to cyclicity in the steel sector as demand for steel depends on the 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 vulnerable to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods.

Rating Sensitivity

- Time and cost overrun in ongoing project
- Any significant capital expenditure and debt intake beyond the expected levels
- Any major improvement or deterioration in operating margins

Material Covenant

None

Liquidity Position: Adequate

The Sambhv group has adequate liquidity profile as reflected from low utilization of working capital limits ranging from 50 percent to 66 percent during the last 12 months ended May 2021. In addition, group has comfortable net cash accrual of Rs. 50 Cr during FY21 (Provisional) as against current maturity of around 20 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 65 Cr as against increased annual loan repayments of around Rs. 30 Cr from FY22-FY24. Current ratio stood comfortable at 1.49 times during FY21. The working capital intensity of the business is fairly comfortable as reflected from GCA days of 61 days as on 31 March 2021. Acuite believes the liquidity position of the group will remain adequate backed by steady cash accruals and efficient working capital management 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 and their ability to build a scalable business. The outlook may be revised to 'Positive' if Sambhv group is able to strengthen the financial risk profile further along with sustainability in the profitability margins. Conversely, the outlook may be revised to 'Negative' if the group witnessed significant deterioration in financial risk profile or liquidity profile due to higher than expected debt led capex plan.

About the Rated Entity - Consolidated

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	986.30	583.81
PAT	Rs. Cr.	39.29	16.10
PAT Margin	(%)	3.98	2.76
Total Debt/Tangible Net Worth	Times	1.33	1.46
PBDIT/Interest	Times	4.23	3.03

About the Rated Entity – Standalone

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	270.46	249.92
PAT	Rs. Cr.	3.48	2.38
PAT Margin	(%)	1.29	0.95
Total Debt/Tangible Net Worth	Times	1.43	1.10
PBDIT/Interest	Times	3.64	2.74

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
17 December 2020	Cash Credit	Long Term	13.50	ACUITE BBB/Stable (Assigned)
	Term loan	Long Term	1.50	ACUITE BBB/Stable (Assigned)

***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	13.5	ACUITE BBB+/Stable (Upgraded)
Term Loan	July 2019	Not Available	June 2022	0.99	ACUITE BBB+/Stable (Upgraded)
Term Loan	Not Available	Not Available	Not Available	0.51	ACUITE BBB+/Stable (Upgraded)

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About Acuité Ratings & Research:

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