Press Release

Ganpati Sponge Iron Private Limited

March 22, 2022

Rating Upgraded and Upgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.36	ACUITE A- | Upgraded & Withdrawn	-
Bank Loan Ratings	30.38	ACUITE A- | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	30.38	-	-
Total Withdrawn Quantum (Rs. Cr)	17.36	-	-

Rating Rationale

Acuité has upgraded the long-term rating to **ACUITE A-' (read as ACUITE A minus)** from **'ACUITE BBB+' (read as ACUITE Triple B plus)** on the Rs 30.38 Cr bank facilities of Ganpati Sponge and Iron Private Limited (GIPL). The outlook is **'Stable'**. Acuité has upgraded & withdrawn the long-term rating of **ACUITE A-' (read as ACUITE A minus)** on the Rs 17.36 Cr bank facilities of Ganpati Sponge and Iron Private Limited (GIPL). The above mentioned limits are withdrawn based on NOC from concern banker and request from client as per Acuite's withdrwal policy.

The rating upgrade is mainly driven by Acuité's expectation that the group will record a strong operational performance in FY22 and FY23.The group is likely to register healthy revenue growth along with an improvement in profit margin in the current financial year. This improvement will be driven by high capacity addition with substantial rise in average realization of steel products due to rising demand from end user industries. Further, the financial risk profile of the group is also expected to witness an improving trend over the medium term backed by scheduled repayment of term loans. However the ratings are constrained by group's cyclical nature of operation.The group has undertaken debt funded capital expenditure plans which is expected to lead to a slight moderation in their debt coverage and leverage indicators in the medium term.

About the Company

Incorporated in 2006, Ganpati Sponge iron Private Limited (GIPL) is engaged in manufacturing of strip & billet with an installed capacity of 75,000 MT per annum each. The company also has 150,000 MTPA of MS pipe manufacturing unit.

About the 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 an 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. Recently the company has added rolling mill with an installed capacity of 150,000 MT per annum which is operational since October 2021.

S.Pyarelal Ispat Private Limited (SPIPL) manufactures billet & strips. The installed capacity for billet unit and strips 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 sustained revenue growth

The Sambhv group is promoted by the 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, 297,600 MT of billets and 297,000 MT of rolled steel products. In addition, the group has a pipe manufacturing capacity in GIPL of 150,000 MTPA. The group has undertaken capex plan in both GIPL and SSPL to enhance the overall pipe capacity to 400,000 MTPA which is expected to be funded mostly through external debt. The ongoing capex will help the group to enhance its operating efficiencies. The group will undertake another capex plan during FY23 of around Rs 40 Cr for setting up a 90,000 MT per annum of picking unit and 60,000 MTPA of Galvanizing unit. The same will be funded through a mix of debt and equity in 2:1 ratio.

The group's consolidated revenues stood at Rs 988 Cr in FY21 as against Rs 583 Cr in FY20 thus registering a robust y-o-y growth of 69 percent. This improvement is driven by the rise in both sale volume and average realization of intermediate and finished goods. The revenue growth is expected to continue in FY22 as the group has already registered revenue stood at Rs 946 Cr during 9MFY22(Prov).The current year's revenue growth is driven by addition of rolling capacity in SSPL. Acuité believes the scale of operation will improve further over the medium term with implementation of ongoing capex plans.

Healthy financial risk profile

The financial risk profile of the group is marked by heathy net worth, modest gearing ratio and strong debt protection metrics. The net worth of the group has improved to Rs 143.41 Cr in FY2021 from Rs.98 Cr in FY2020. Acuité has treated unsecured loans of Rs 29.19 Cr as part of networth as the amount is subordinated to bank debt. The gearing of the group stood at 1.29 times as on March 31, 2021as compared to 1.51 times as on March 31, 2020. The group has high reliance on external debt because of continuous capex being undertaken by the group. The long term debt stood at Rs 136 Cr in FY21 as against Rs 91 Cr in FY20. TOL/TNW stood at 1.64 times in FY21 as against 2.00 times in FY20. Interest coverage ratio (ICR) stood strong at 4.23 times in FY2021 as against 3.03 times in FY 2020. The debt service coverage ratio (DSCR) at 2.35 times in FY2021 as against 1.89 times in FY2020.The improvement in coverage ratio is on account of rise in profit margin. Acuité believes the financial risk profile of the group will remain comfortable over the medium term despite of ongoing and upcoming capex plans due to healthy profit margin.

Improving trend in profitability margin

Profitability of the group stood comfortable as EBITDA margin stood at 8.22 percent in FY21 as compared to 6.56 percent in FY20. PAT margin stood at 4.06 percent in FY21 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. The group has already posted EBITDA margin of 11 percent during 9MFY22(Provisional). The group has witnessed a substantial rise in average realization of both intermediate and finished goods which led to further improvement in profit margin. Acuité believes Sambhv Group's profitability will continue to remain at a comfortable level in medium term backed by integrated nature of operation.

Efficient working capital management

The group has a low working capital requirement as reflected from its Gross Current Asset (GCA) days which stood at 55 days in FY21 as against 91 days in FY20. Reason for low GCA days is comfortable debtor days of 8 days in FY21. Inventory days stood at 26 days in FY21 as against 44 days in FY20. Acuité 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 cyclicality 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.

Increase in debt levels

The group has undertaken capex plans in SSPL & GIPL to enhance the overall pipe capacity to 400,000 MTPA from 150,000 MTPA. The overall project cost for ongoing capex plans is around Rs 39 Cr which is funded through Rs 26 Cr of external debt and remaining from internal accrual .The proposed facilities are likely to be operational by Q2FY23. The rolling mill project had witnessed a cost overrun of Rs 25 Cr due to enhancement in the scape of project. The same was funded through internal accrual. The group will refinance the said cost through external debt during FY22.Acuité believes the coverage and leverage ratios of the group will witness slight moderation over the medium term because of the rise in the debt levels.

Rating Sensitivities

- Time and cost overrun in ongoing projects.
- Substantial improvement in profit margin along with sustenance in financial risk profile

Material covenants

Not Applicable

Liquidity profile: Adequate

The Sambhv group has adequate liquidity profile as reflected from low utilization of working capital limits which stood at 69 percent during the last 7 months ended February 2022. In addition, group has healthy net cash accrual of Rs. 50 Cr during FY21 as against current maturity of around 23.85 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 87 Cr as against increased repayment obligations of around Rs. 30 Cr from FY23-FY24.Current ratio stood comfortable at 1.48 times during FY21. The working capital intensity of the business is fairly comfortable as reflected from GCA days of 55 days as on 31 March 2021. The group will avail Rs 11.91 Cr of term loan under emergency credit line guarantee scheme to meet the future working capital requirement. 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 the ongoing upturn in the steel cycle. The outlook may be revised to 'Positive' if Sambhv group sustains their revenue growth with substantial improvement in profit margin .Conversely, the outlook may be revised to 'Negative' if the group witnesses significant deterioration in financial risk profile or liquidity profile due to higher than expected debt led capex plan.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	988.49	583.81
PAT	Rs. Cr.	40.18	16.10
PAT Margin	(%)	4.06	2.76
Total Debt/Tangible Net Worth	Times	1.29	1.51
PBDIT/Interest	Times	4.23	3.03

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 Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Aug 2021	Proposed Term Loan	Long Term	0.02	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	2.87	ACUITE BBB+ | Stable (Reaffirmed)
	Cash Credit	Long Term	8.50	ACUITE BBB+ | Stable (Reaffirmed)
	Cash Credit	Long Term	13.50	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	0.99	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	4.50	ACUITE BBB+ | Stable (Reaffirmed)
07 Jul 2021	Term Loan	Long Term	0.51	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
	Term Loan	Long Term	0.99	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
	Cash Credit	Long Term	13.50	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
17 Dec 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A- | Stable | Upgraded
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE A- | Upgraded & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.01	ACUITE A- | Stable | Upgraded
HDFC Bank Ltd	Not Applicable	Term Loan	31-03-2021	11.75	30-09-2027	4.50	ACUITE A- | Stable | Upgraded
Kotak Mahindra Prime Limited	Not Applicable	Term Loan	30-01-2021	7.50	30-01-2025	2.87	ACUITE A- | Upgraded & Withdrawn
Kotak Mahindra Bank	Not Applicable	Term Loan	31-07-2019	11.80	30-06-2022	0.99	ACUITE A- | Upgraded & Withdrawn
HDFC Bank Ltd	Not Applicable	Term Loan	04-10-2021	7.50	31-01-2025	2.87	ACUITE A- | Stable | Upgraded

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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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