

Press Release

Ganpati Sponge Iron Private Limited

February 21, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	83.86	ACUITE A- Positive Reaffirmed Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	83.86	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs 83.86 Cr bank facilities of Ganpati sponge iron Private Limited (GIPL). The outlook has been revised to '**Positive**' from 'Stable'.

Rating Rationale

The revision in outlook factors in the significant improvement in the business risk profile of the company marked by a sharp revenue growth and better profitability metrics apart from the sustenance in their strong financial risk profile. Acuite expects the performance of the group to sustain over the medium term backed by continued increase in sales and stable profitability. This would lead to enhanced accruals and in turn strong debt protection metrics.

About 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 August 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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

Key Rating Drivers

Strengths

Integrated nature of operations along with sustained revenue growth

The Sambhv group is promoted by the Goyal family of Raipur (Chhattisgarh). 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, GIPL and SPLPL. The aggregate installed capacity of the Sambhv Group is 100,000 MT of sponge iron, 297,000 MT of billets and 447,000 MT of rolled steel products. The group has undertaken an expansion capex in SSPL of Rs 64.00 Cr to enhance its billet capacity by 108,000 MTPA and its Pipe capacity by 100,000 MTPA. The proposed billet and pipe mill is likely to be operational by April 2023. In addition, the group has undertaken another expansion project in SSPL of Rs 205 Cr to enhance the sponge iron capacity by 165,000 MTPA along with captive power capacity of 15 MW WHRB, which is expected to be operational by July '24. The same will be funded through a mix of debt and equity in 2:1 ratio. Post the expansion, it will benefit from increased scale and other operational synergies, thus strengthening the overall operating profile. Considering its successful capacity expansion of the manufacturing operations in the past, the group has demonstrated strong volume growth and healthy profit margins over the last few years.

The group's consolidated revenues stood at Rs 1453.49 Cr in FY22 as against Rs 988.49 Cr in FY21 thus registering a robust y-o-y growth of 47 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 FY23 as the group has already achieved revenue of Rs 1351 Cr till December 2022 (prov). This growth is driven by addition of rolling capacity in SSPL with steady realization of steel products. Acuite believes the scale of operation will improve over the medium term backed by rise in sale of value added steel products such as MS Pipes, HR Coil where realizations are higher in comparison to intermediate goods such as Sponge Iron and Billet.

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 235.54 Cr in FY2022 from Rs.143.41 Cr in FY2021. Acuité has treated unsecured loans of Rs 41.52 Cr as part of networth as the amount is subordinated to bank debt. The gearing of the group stood at 1.22 times as on March 31, 2022 as compared to 1.29 times as on March 31, 2021. The group has high reliance on external debt because of continues capex being undertaken by the group. The long term debt stood at Rs 137 Cr in FY22 as against Rs 113 Cr in FY21. TOL/TNW stood at 1.63 times in FY22 as against 1.68 times in FY20. Interest coverage ratio (ICR) stood strong at 6.43 times in FY2022 as against 4.23 times in FY 2021. The debt service coverage ratio (DSCR) at 2.50 times in FY2022 as against 2.37 times in FY2021. 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.

Efficient working capital management

The group has a comfortable working capital requirement as reflected from 73 days of GCA days in FY22 as against 55 days in FY21. In FY22, group had witnessed an increase in inventory days to 43 days from 26 days in FY21 due to year end inventory of raw material especially iron ore to mitigate the price fluctuations risk. Acuite believes working capital requirement is likely to remain similar in medium term.

Weaknesses

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.

Continuous capex mode

The group has undertaken an expansion capex in SSPL of Rs 64.00 Cr to enhance its billet capacity by 108,000 MTPA and its Pipe capacity by 100000 MTPA. The proposed billet and pipe mill is likely to be operational by April 2023. In addition, the group has undertaken another expansion project in SSPL of Rs 205 Cr to enhance the sponge Iron capacity by 165,000 MTPA along with captive power capacity of 15 MW WHRB, which is expected to be operational by July ' 24. To finish its capex program, the group is anticipated to take out a loan for Rs 189 crore over the following two years. 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

None

Liquidity Position

Adequate

The Sambhvi group has adequate liquidity profile as reflected from low utilization of working capital limits which stood at 45 percent during the last 10 months ended January 2023. In addition, group has healthy net cash accrual of Rs. 95 Cr during FY22 as against current maturity of around 23.85 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 116 Cr as against increased repayment obligation of around Rs. 31 Cr from FY23-FY24. Current ratio stood comfortable at 1.23 times during FY22. The working capital intensity of the business is fairly comfortable as reflected from GCA days of 73 days as on 31 March 2022. 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: Positive

Acuité believes that GIPL has consistently improved the business risk profile of the company as reflected from its substantial increase in scale of operations and maintenance in profitability parameters. Moreover, the company has been able to maintain its robust financial risk profile apart from its prudent working capital management. The rating may be upgraded if the company sustains the growth momentum while maintaining the operating profitability and the financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, deterioration in profitability metrics or if the group incurs more than envisaged debt funded capex.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1453.49	988.49
PAT	Rs. Cr.	79.78	40.18
PAT Margin	(%)	5.49	4.06
Total Debt/Tangible Net Worth	Times	1.22	1.29
PBDIT/Interest	Times	6.43	4.23

Status of non-cooperation with previous CRA (if applicable)

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
06 Apr 2022	Term Loan	Long Term	2.87	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Long Term	3.79	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.01	ACUITE A- Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	15.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	4.19	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.87	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	13.50	ACUITE A- (Withdrawn)

22 Mar 2022	Term Loan	Long Term	4.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Term Loan	Long Term	1.01	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	2.87	ACUITE A- (Withdrawn)
	Term Loan	Long Term	0.99	ACUITE A- (Withdrawn)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	37.00	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A- Positive Reaffirmed Stable to Positive
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	4.75	ACUITE A- Positive Reaffirmed Stable to Positive
HDFC Bank Ltd	Not Applicable	Term Loan	31 Mar 2021	11.75	30 Sep 2027	Simple	4.05	ACUITE A- Positive Reaffirmed Stable to Positive
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.56	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.50	ACUITE A- Positive Reaffirmed Stable to Positive

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About Acuité Ratings & Research

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