

Press Release

N R Sponge Private Limited

March 22, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	-	ACUITE A2+ Reaffirmed
Bank Loan Ratings	49.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	62.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to Rs. 62.00 Cr bank facilities of N R Sponge Private Limited. The outlook remains '**Stable**'.

The rating is driven by an improvement in the overall business risk profile of the G R group marked by sharp increase in the operating income along with an improvement in profitability arising from improved realizations as well as better cost efficiencies. The rating also factors in its experienced management, efficient collection mechanism and the healthy financial risk profile of the company characterized by strong debt coverage indicators. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About the Company

Incorporated in 2002, N R Sponge Private Limited (NRSPL) is a Raipur, Chhattisgarh based company, engaged in manufacturing and selling of sponge iron. The group has acquired the company in 2012. Currently, the company is headed by Mr. Rameshkumar Ganpatrai Agrawal, Ms. Amita Agrawal, Mr. Chetan Agrawal, Mr. Keshav Kumar Agrawal Mr. Jyotish Chandra Das and Mr. Ranjeet Singh Thakur. The company has an installed capacity of 90,000 MTPA of sponge iron and a 6 MW waste heat recovery based captive power plant.

About the Group

The G R Group comprises several companies as enumerated below:

Established in 1996, G R Sponge and Power Limited (GRSPL) is a Raipur, Chhattisgarh based company, engaged in manufacturing and selling of sponge iron and MS ingots. Currently, the company is headed by Mr. Rameshkumar Ganpatrai Agrawal, Mr. Chetan Agrawal, Mr. Keshav Kumar Agrawal Mr. Kanhaiya Lal Jain and Mr. Ranjeet Singh Thakur. The company has an installed capacity of 60,000 MTPA of sponge iron and an 8 MW waste heat recovery based captive power plant. Recently, the company has installed a MS ingots unit with a capacity of 30,000 MTPA and a foundry division with an installed capacity of 20,000 MTPA of

cast iron and 3,600,000 pieces annually of SG inserts.

Incorporated in 1996, G R Minerals and Industries Private Limited (GRMIPL) is a Raipur based company, engaged in manufacturing and selling of ferro alloys. Currently, the company is headed by Mr. Chetan Agrawal and Mr. Keshav Kumar Agrawal. The company has an installed capacity of 12,000 MTPA of ferro alloys.

Established in 2003, Chaman Metallica Limited (CML) is a Tadali, Maharashtra based company, engaged in manufacturing of sponge iron. The group has acquired the company in 2019. Currently, the company is headed by Mr. Rameshkumar Ganpatrai Agrawal, Mr. Chetan Agrawal and Mr. Keshav Kumar Agrawal. The company has an installed capacity of 60,000 MTPA of sponge iron.

Established in 2008, Prithvi Ferro Alloys Private limited (PFAPL) is a Chandrapur, Maharashtra based company, engaged in manufacturing of ferro alloys. The group has acquired the company in 2021 jointly with Hind Energy Group. Currently, the company is headed by Mr. Rajiv Agarwalla, Mr. Chetan Agrawal, Mr. Bijay Kumar Garodia and Mr. Aditya Agrawal. The company has an installed capacity of 30,000 MTPA of ferro alloys and an 18 MW thermal captive power plant.

PFAPL has been taken over by GR Group & Hind Energy Group (rated at ACUTE A+/Stable/A1) in May 2021 through NCLT. The entire amount as decided by NCLT of Rs 61.40 cr has been paid off through term loan from HDFC of Rs 38 Cr, Rs 18.50 Cr of unsecured loans (Rs 9 Cr from group company of Hind Energy and balance from GR group) and Rs 5 cr of equity (Ratio 50: 50 between GR and Hind Group). GR Sponge and Power Limited has given corporate guarantee for the term loan of Prithvi Ferro Alloys Pvt Ltd. The operation of the Prithvi Ferro has commenced from September'21 onwards. The profitability and cash accruals are expected to improve and the company is expected to have sufficient surplus to repay its debt.

Analytical Approach

For arriving at this rating, Acuité has revised the approach to include Prithvi Ferro Alloys Private limited (PFAPL) into the 'G R Group' as the group has a 50 per cent stake in the entity, GR Sponge and Power Limited have given corporate guarantee for the term loan of Prithvi Ferro Alloys Pvt Ltd and the operations would be managed by the G R group. Hence, Acuité has consolidated the business and financial risk profiles of N.R. Sponge Private Limited (NRSPL), G R Sponge and Power Limited (GRSPL), G R Minerals and Industries Private Limited (GRMIPL), Chaman Metallica Limited (CML) and Prithvi Ferro Alloys Private limited (PFAPL) together referred to as the 'G R Group' (GG). The consolidation is in the view of common management, strong operational linkages between the entities and a similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The G R group has a long track record of over two decades in the iron and steel industry. Acuité believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. The key promoter of the group, Mr. Rameshkumar Ganpatrai Agrawal has been associated with the iron & steel industry for two decades. In addition to this, the second generation promoters Mr. Keshav Agarwal and Mr. Chetan Agrawal are now involved with the day to day operations of the group. Acuité derives comfort from the long experience of the promoters.

- **Strong business risk profile supported by semi integrated nature of operations**

The strong business risk profile of the group is supported by the semi integrated nature of operations with a manufacturing capacity of sponge iron, ingots, ferro alloys, foundry division and three captive power plants. GRSPL and NRSPL produces power from the sponge

iron producing facilities through waste heat recovery mechanism. Since inception, the produced power of GR SPL is used in the ferro alloy plant of GR MIPL and now the newly installed power plant of NR SPL will supply power to ingots manufacturing unit in GR SPL. The captive power plant in PFAPL supplies power in the company's ferro alloy plant. The presence of power plant gives the company a competitive edge over its competitors and thereby ensures stable and sustainable margins for the group in the medium to long term. Acuité believes that the semi integrated nature of the group enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent.

The group has achieved revenues of Rs. 597.30 Cr in 9MFY2022 (Provisional) as compared to Rs. 515.79 Cr in FY2021 and Rs. 361.60 Cr in FY2020. In 9MFY2022, the improvement in revenue is primarily on account of revenue generation from MS Ingots and foundry divisions in GR SPL and commencement of operations of PFAPL from September 2021. In FY2021, the growth in top line is majorly due to ramp up of operations in CML which was running at 100 per cent capacity as against 50 per cent capacity in FY2020. Further, the increase in revenue is backed by established market position of the GR Group and favorable domestic demand. Going forward, the revenue is expected to improve further on account of ramp up of operations in the newly acquired PFAPL.

Moreover, the operating margin rose to 11.47 per cent in 9MFY2022 (Provisional) from 9.40 per cent as on 31st March, 2021 and 7.19 per cent in FY2020. The PAT margin of the company increased to 7.03 per cent in 9MFY2022 (Provisional) from 5.11 per cent in FY2021 and 4.58 per cent in FY2020. The Return on Capital Employed (ROCE) of the company stood comfortable at 17.74 per cent as on FY2021 as compared to 10.20 per cent as on FY2020. The growths in profitability margins are primarily on account of high demand and better pricing. Additionally in 9MFY2022, the group was able to save power cost to a large extent in manufacturing unit of ingots in GR SPL through the power plant of NR SPL thus increasing its profitability margins. Going forward, the captive power plant in PFAPL will help the group to boost further its profitability margins.

Acuité believes that the sustainability in the revenue growth and profitability margins would be a key monitorable going forward.

• **Healthy financial risk profile**

The group's healthy financial risk profile is marked by healthy networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the group improved to Rs.141.47 Cr as on March 31, 2021 from Rs.115.10 Cr as on March 31, 2020 due to accretion of profits. Gearing of the group stood comfortable as Debt to Equity ratio stood at 0.75 as on March 31, 2021 as compared to 0.99 as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.25 times as on March 31, 2021 as against 1.46 times as on March 31, 2020. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 4.89 times as on March 31, 2021 and Debt Service Coverage Ratio (DSCR) at 2.66 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.33 times as on March 31, 2021.

Acuité believes that going forward the financial risk profile of the group will improve further backed by steady accruals and no major debt funded capex plans.

• **Moderate working capital management**

The moderate working capital management of the group is marked by Gross Current Assets (GCA) of 124 days as on March 31, 2021 as against 146 days as on March 31, 2020. The moderate level of GCA days are primarily on account of moderate inventory holding level which stood at 79 days as on March 31, 2021 as compared to 96 days as on March 31, 2020. The group being a primary steel manufacturer has to maintain stock of iron ore and coal to mitigate the fluctuation in prices. The debtor period stood comfortable at 15 days as on March 31, 2021 as compared to 13 days as on 31st March 2020. Going forward, Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and moderate inventory levels over the medium term.

Weaknesses

• Intense competition and inherent cyclical nature of the steel industry

The downstream steel industry remains heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivities

- Sustainability in revenue growth and margins
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by high net cash accruals stood at Rs.34.75 Cr as on March 31, 2021 as against long term debt repayment of Rs. 6.49 Cr over the same period. The fund based limit remains utilised at 49 per cent over the six months ended January, 2022. The current ratio stood comfortable at 1.39 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.5.10 Cr as on March 31, 2021 as compared to Rs.3.57 Cr as on March 31, 2020. However, the working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 124 days as on March 31, 2021 as against 146 days as on March 31, 2020. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on GR group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position, healthy financial risk profile and moderate working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	515.79	364.54
PAT	Rs. Cr.	26.36	16.69
PAT Margin	(%)	5.11	4.58
Total Debt/Tangible Net Worth	Times	0.75	0.99
PBDIT/Interest	Times	4.89	3.43

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>

- Consolidation Of Companies: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Mar 2022	Letter of Credit	Short Term	13.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Term Loan	Long Term	26.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	23.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
20 Jul 2021	Term Loan	Long Term	26.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	23.00	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	13.00	ACUITE A2 (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	23.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	18-05-2019	11	31-05-2025	26.00	ACUITE A- Stable Reaffirmed

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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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