

Press Release

N R Sponge Private Limited

April 28, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.50	ACUITE A- Stable Assigned	-
Bank Loan Ratings	47.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	15.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	67.50	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.62.00 Cr bank facilities and has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.5.50 Cr bank facilities of N R Sponge Private Limited (NRPL). The outlook remains '**Stable**'.

Rationale for the rating

The rating factors in the strong business risk profile of the group marked by the upsurge in revenues and healthy profitability margins arising from the semi-integrated nature of operations. The rating further draws comfort from the experienced management, strong liquidity position and healthy financial risk profile of the group as reflected by the low gearing and healthy 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

Based in Raipur, Chhattisgarh, N R Sponge Private Limited (NRSPL) was incorporated in 2002 and is engaged in the manufacturing and selling of sponge iron. NRSPL is headed by Mr. Rameshkumar Ganpatrai Agrawal and Mr. Chetan Kumar Agrawal and has an installed capacity of 90,000 MTPA of sponge iron, a 6 MW waste heat recovery based captive power plant and a newly installed 4 MW biomass based captive power plant.

About the Group

The G R Group comprises several companies as enumerated below:

Incorporated in 1996, G R Sponge and Power Limited (GRSPL) is engaged in the manufacturing and selling of sponge iron and MS ingots. Based in Raipur, Chhattisgarh, the company is managed by Mr. Rameshkumar Ganpatrai Agrawal and Mr. Chetan Kumar Agrawal. GRSPL has an installed capacity of 60,000 MTPA of sponge iron, an 8 MW waste heat recovery based captive power plant, 30000 MTPA of MS ingots, cast iron and SG inserts. Moreover, G R Minerals and Industries Private Limited (GRMIPL), erstwhile a part of the group, has now been merged with G R Sponge and Power Limited (GRSPL) as per NCLT order.

Incorporated in 2003, Chaman Metallics Limited (CML) is based in Tadali, Maharashtra and is engaged in the manufacturing of sponge iron. GR group has acquired the company in 2019. CML is headed by Mr. Rameshkumar Ganpatrai Agrawal and Mr. Chetan Kumar Agrawal. The company has an installed capacity of 60,000 MTPA of sponge iron. Further, CML got listed in NSE on January, 2023 and has raised a fund of Rs.24.13 Cr through the IPO.

Based in Chandrapur, Maharashtra, G R Krishna Ferro Alloys Private limited (GRKFAPL) [erstwhile Prithvi Ferro Alloys Private limited] was incorporated in 2008 and is engaged in manufacturing of ferro alloys. GR group acquired the company in 2021 jointly with Hind Energy Group (rated at ACUITE A+/Stable/A1) in a 50:50 ratio. The company is managed by Mr. Keshav kumar Agrawal and Mr. Chetan Kumar Agrawal and has an installed capacity of 33,000 MTPA of ferro alloys and an 18 MW thermal captive power plant.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of N.R. Sponge Private Limited (NRSPL), G R Sponge and Power Limited (GRSPL), Chaman Metallics Limited (CML) and G R Krishna Ferro Alloys Private limited (GRKFAPL) [erstwhile Prithvi Ferro Alloys Private Limited] 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. Additionally, G R Sponge and Power Limited have given corporate guarantee for the term loan of G R Krishna Ferro Alloys Private limited.

Extent of consolidation: Full.

Key Rating Drivers

Strengths

Experienced management

G R group has established a long presence of over two decades in the iron and steel industry. The group is promoted by Mr. Rameshkumar Ganpatrai Agrawal with an industry experience of over two decades and is supported by the second generation promoters, Mr. Keshav Agarwal and Mr. Chetan Agrawal. Acuité believes that the long track record of operations and the vast experience of the promoters will continue to support the growth plans of the group, going forward.

Strong business risk profile

The group's operations are 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 GRSPL is used in the ferro alloy plant of GRMIPL and the power plant of NRSPL is supplying power to the ingots manufacturing unit in GRSPL. Further, the captive power plant in GRKFAPL supplies power in the company's ferro alloy plant. This power cost saving mechanism gives the group a competitive edge over its competitors and thereby ensures stable and sustainable margins for the group in the medium to long term. Acuité believes the semi-integrated nature of operations 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 a turnover of Rs.739.64 Cr till December, 2022 (provisional). The uptrend in the revenues is backed by the favourable domestic demand and ramp up of operations in GRKFAPL. Moreover, GR group has achieved a significant growth in the revenues of around 68 per cent in FY2022 and has achieved revenues of Rs.864.97 Cr as compared to Rs. 515.79 Cr in FY2021. The improvement in the turnover is primarily on account of revenue generation from MS Ingots and foundry divisions in GRSPL and commencement of operations of GRKFAPL from October, 2021. Acuité believes that going forward the scale of operations will remain healthy over the medium term driven by the capacity additions, the established market position of the group and the continued thrust on infrastructure

development along with pick-up in the real estate and construction activities by the Government.

In FY2022, there was an exceptional growth in the profitability margins of the group primarily on account of upswing in the prices of ferro alloys. The operating margin of the group rose to 15.38 per cent in FY2022 from 9.40 per cent in FY2021. Further, the PAT margin increased to 10.23 per cent in FY2022 from 5.11 per cent in FY2021. However, the ferro alloy prices moderated in FY2023 which led the margins to slightly contract with an operating margin of 12.47 per cent (provisional) and PAT margin of 6.41 per cent (provisional) in the 9M of FY2023. Acuité believes going forward, the profitability margins are expected to remain healthy backed by steady demand and the semi integrated nature of operations of the group.

Healthy financial risk profile

The financial risk profile of the group is healthy as reflected by the high networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the group significantly improved to Rs.298.35 Cr as on March 31, 2022 from Rs.141.47 Cr as on March 31, 2021 due to accretion of profits and infusion of capital of GRKFAPL. Gearing of the group continues to remain comfortable at 0.82 as on March 31, 2022 as compared to 0.75 as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) also stood comfortable at 0.99 times as on March 31, 2022 as against 1.25 times as on March 31, 2021. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 7.09 times as on March 31, 2022 and Debt Service Coverage Ratio (DSCR) at 4.90 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.45 times as on March 31, 2022.

The group has undertaken a capex in CML to install one new sponge iron plant with capacity of 350 TPD, to install a billet unit (3 x 20 MT), install one cast iron unit (3 x 4 MVA), install one 12 MW Waste Heat Recovery based captive power plant and one 12 MW Coal Fuel based captive power plant. The project commenced in July, 2022 and the commercial operations are expected to start by July, 2024. The total cost of the project is Rs.296.00 Cr, out of which Rs.180.00 Cr will be funded through term loan and balance from promoters' sources. The funding risk is mitigated with the financial tie up completed for the entire Rs.180 Cr of term loan.

Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term despite having debt funded capex plans.

Moderate working capital management

The working capital management of the group is moderate in nature marked by Gross Current Assets (GCA) of 132 days as on March 31, 2022 as against 124 days as on March 31, 2021. The moderate level of GCA days are primarily on account of the moderate inventory period which stood at 74 days as on March 31, 2022 as compared to 79 days as on March 31, 2021. The inventory holding is due to maintaining the stock of iron ore and coal in order to mitigate the fluctuation in prices. However, the debtor period stood comfortable at 21 days as on March 31, 2022 as compared to 15 days as on 31st March 2021. Acuité believes that the working capital cycle of the group will remain around the similar level as evident from the moderately high inventory levels and the efficient collection mechanism 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 group 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 while improving profitability margins
- Elongation of working capital cycle

- Timely completion of the ongoing project

Material covenants

None

Liquidity Position: Strong

The group has a strong liquidity position marked by high net cash accruals as against the maturing debt obligations. The net cash accruals stood at Rs.108.94 Cr as on March 31, 2022 as against long term debt repayment of only Rs.11.03 Cr over the same period. The fund based limit remains moderately utilised at 56 per cent over the six months ended January, 2023. The current ratio stood comfortable at 1.73 times as on March 31, 2022 as compared to 1.39 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.0.73 Cr as on March 31, 2022. However, the working capital management of the group is moderate in nature marked by Gross Current Assets (GCA) of 132 days as on March 31, 2022 as against 124 days as on March 31, 2021. Acuité believes that going forward the group will maintain superior liquidity position due to the improving 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 strong liquidity position. 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 delays in the completion of the project or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	864.97	515.79
PAT	Rs. Cr.	88.47	26.36
PAT Margin	(%)	10.23	5.11
Total Debt/Tangible Net Worth	Times	0.82	0.75
PBDIT/Interest	Times	7.09	4.89

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>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuité 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 2023	Cash Credit	Long Term	24.90	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	22.10	ACUITE A- Stable (Reaffirmed)
22 Mar 2022	Letter of Credit	Short Term	13.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	26.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	23.00	ACUITE A- Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.90	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.10	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	22.10	ACUITE A- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Geeta Karira Analyst-Rating Operations Tel: 022-49294065 geeta.karira@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.