Press Release

G R Sponge And Power Limited

July 22, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.45.25 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** to the Rs.45.25 Cr bank facilities of G R Sponge and Power Limited (GRSPL). The outlook is **'Stable'**.

The rating on GRSPL takes into account the strong business risk profile of the G R Group, its revenue diversity across the steel sector and its healthy financial position characterised by comfortable leverage and 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

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.

About the group

Incorporated in 1996, G R group was promoted by Agarwal family of Raipur, Chattisgarh. The group consists of N.R. Sponge Private Limited (NRSPL), G R Sponge and Power Limited (GRSPL), G R Minerals and Industries Private Limited (GRMIPL) and Chaman Metallics Limited (CML). It is engaged in the business of steel and steel products. Currently, the group has a capacity of 210,000 MTPA of sponge iron, 12,000 MTPA of ferro alloys, 30,000 MTPA of MS ingots and two captive waste heat recovery mechanisms based power plants with a total capacity of 14 MW.

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.

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 Metallics 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.

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), G R Minerals and Industries Private Limited (GRMIPL) and Chaman Metallics Limited (CML) 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

- **Experienced management**

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 believes that the promoters' extensive understanding and expertise will support the group's growth plans going forward.

- **Strong business risk profile**

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 two 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 now the newly installed power plant of NRSPL will supply power to newly installed ingots manufacturing unit in GRSPL. 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.

Moreover, the revenue of the group has improved to of Rs. 520.69 Cr in FY2021 (Provisional) as compared to revenues of Rs. 361.60 Cr in FY2020 registering a y-oy growth of 42.83 per cent. The improvement is majorly due to ramp up of operations in CML which has utilized its 100 per cent capacity as against 50 per cent capacity utilization in the previous year. Additionally, 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 newly launched units of MS Ingots and foundry divisions in GRSPL.

Further, the operating margin rose to 9.71 per cent as on 31st March, 2021 (Provisional) from 7.19 per cent in FY2020. The PAT margin of the company increased to 6.02 per cent in FY2021 (Provisional) from 4.58 per cent in FY2020. The Return on Capital Employed (ROCE) of the company stood comfortable at 18.96 per cent as on FY2021 (Provisional) as compared to 10.20 per cent as on FY2020. The growths in profitability margins are primarily on account of high demand and better realisation per unit. Going forward, the power cost of the newly launched manufacturing unit of ingots in GRSPL would be procured captively from NRSPL, which will save cost to a large extent thus increasing its profitability margins significantly.

Acuité believes that the sustainability in the revenue growth along with improvement in 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.146.42 Cr as on March 31, 2021 (provisional) 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 0.69 as on March 31, 2021 (provisional) as compared to 0.99 as on March 31, 2020. The debt of Rs.100.64 Cr mainly consists of working capital borrowing of Rs.38.24 Cr, long term debt of Rs.36.15 Cr, unsecured loan of Rs.18 Cr and current maturity of term loan of Rs.8.25 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.12 times as on March 31, 2021 (provisional) 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 5.10 times as on March 31, 2021 (provisional) and Debt Service Coverage Ratio (DSCR) at 2.93 times as on March 31, 2021 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.39 times as on March 31, 2021 (provisional). Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, in absence of any major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 117 days as on March 31, 2021 (provisional) as against 146 days as on March 31, 2020. The high GCA days are primarily on account of high inventory holding level which stood at 75 days as on March 31, 2021 (provisional) 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. However, the debtor period stood comfortable at 19 days as on March 31, 2021 (provisional) 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 moderately high inventory levels over the medium term.

- **Intense competition and inherent cyclical nature of the steel industry**

The industry remained 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 Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation in working capital cycle

Material Covenant
None

Liquidity Profile: Adequate

The group's liquidity is adequate marked by net cash accruals stood at Rs.39.18 Cr as on March 31, 2021 (provisional) as against long term debt repayment of Rs. 6.49 Cr over the same period. The fund based limit remains utilised at 65 per cent over the five months ended April, 2021. The current ratio stood comfortable at 1.53 times as on March 31, 2021 (provisional). The cash and bank balances of the group stood at Rs.3.75 Cr as on March 31, 2021 (provisional) as compared to Rs.3.78 Cr as on March 31, 2020. The group has availed loan moratorium and also applied for additional covid loan of Rs. 10.00 Cr. However, the working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 117 days as on March 31, 2021 (provisional) 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 G R group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, strong business risk profile and healthy financial risk profile. 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 company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	364.54	361.60
PAT	Rs. Cr.	16.69	20.94
PAT Margin	(%)	4.58	5.79
Total Debt/Tangible Net Worth	Times	0.99	0.69
PBDIT/Interest	Times	3.43	5.77

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)

Operating Income	Rs. Cr.	120.41	132.79
PAT	Rs. Cr.	7.67	10.08
PAT Margin	(%)	6.37	7.59
Total Debt/Tangible Net Worth	Times	0.52	0.54
PBDIT/Interest	Times	3.58	5.46

Status of non-cooperation with previous CRA
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
- 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 (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB+/Stable (Assigned)
Term Loan	30-Aug-2014	13%	30-Aug-2029	5.25	ACUITE BBB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A2 (Assigned)

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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 6,000 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 Mumbai.