

Press Release
G R SPONGE AND POWER LIMITED
July 25, 2024



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	9.00	ACUITE A- Stable Assigned	-
Bank Loan Ratings	52.25	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	29.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	90.25	-	-

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. 81.25 Cr. bank facilities of G R Sponge and Power Limited (GRSPL). The outlook remains 'Stable'. Acuite has assigned the long-term rating of 'ACUITE A-' (read as ACUITE A minus) on the Rs.9.00 Cr. bank facilities of G R Sponge and Power Limited (GRSPL). The outlook is 'Stable'.

Rationale for the rating

The rating factors in the strong business risk profile of the group marked by the stable operating revenues and margins arising from the semi-integrated nature of operations. The rating further draws comfort from the experienced management, adequate 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 working capital intensive nature of operations and cyclical nature of the steel industry and the volatility in commodity prices. Going forward, the ability of the group to improve its scale of operations while maintaining its profitability margins along with the ability to maintain the financial risk profile and timely completion of the ongoing CAPEX will remain a key rating sensitivity factor.

About the Company

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, 12,000 MTPA of silico Manganese, 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.

About the Group

The G R Group comprises several companies as enumerated below:

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.

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.

Based in Chandrapur, Maharashtra, G R Krishna Ferro Alloys Private limited [erstwhile Prithvi Ferro Alloys Private limited] (GRKFAPL) was incorporated in 2008 and is engaged in manufacturing of ferro alloys. GR group acquired the company in 2021 jointly with Hind Energy Group 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.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 [erstwhile Prithvi Ferro Alloys Private Limited] (GRKFAPL) 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.

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 marked by stable scale of operations

The group's operations are supported by their semi integrated nature of operations with a manufacturing capacity of sponge iron, ingots, ferro alloys, foundry division and three captive power plants. The aggregate installed capacity of the group is 210,000 MT of sponge iron, 45,000 MT of ferro alloys and 30,000 MT of MS ingots. The group also has a captive power plant of 36 MW. Further, the group will add a sponge iron capacity of 115,500 MTPA, a billet capacity of 1980000 MTPA, cast iron of 18669 MTPA and 24 MW of captive power plant (12 MW WHRB and 12 MW FDC) by December 2024 which will increase overall sponge iron capacity to 325500 MTPA. The group's diversified portfolio includes sponge iron, silicon manganese and ingots manufacturing, and the addition of billet capacity in FY2025, will strengthen its integrated operations.

GRSPL and NRSPL produce power from the sponge iron producing facilities through waste heat recovery mechanisms. Since its inception, the power produced by GRSPL has been used in its ferro-alloy plant, while the power plant of NRSPL supplies power to the ingot manufacturing unit of GRSPL. Further, the captive power plant in GRKFAPL supplies power to 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 the steel industry to some extent.

The group has achieved operating revenue of Rs.910.65 Cr. in FY2024 (E) as against Rs.1008.30 Cr. in FY2023. The moderated revenue in FY2024 is due to the stabilization of raw material prices, resulting in a decrease in realization prices across the products as compared to FY2023. Further, the operating margins have moderately improved and stood at 10.27 percent in FY2024(E) as against 9.96 percent in FY2023. The marginal improvement in the operating margin is due to a decrease in raw material costs and the stabilization of operations across the group. The PAT margin stood at 4.44 percent in FY2024(E) as against 4.46 percent in FY2023. Acuité believes that going forward, the scale of operations will marginally improve driven by the completion of planned CAPEX in FY2025 along with the installation of a captive power plant, the group's diversified and semi-integrated nature of operations, the established market position and the continued thrust on infrastructure development along with pick-up in real estate and construction activities by the Government.

Healthy financial risk profile

The financial risk profile of the group is healthy as reflected by high networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the group significantly improved to Rs.414.87 Cr. as on March 31, 2023 from Rs.316.24 Cr. as on March 31, 2022 due to the accretion of profits and listing benefits of CML. The total debt of the group stood at Rs.271.78 Cr. consisting of long term debt of Rs.66Cr, short term debt of Rs.172.73 Cr, CPLTD of Rs.32.79 Cr. as on March 31, 2023. Further, the group has undertaken a capex in CML which is expected to be completed by December 2024, with commercial operations expected to start immediately and the total cost of it is Rs.296.00 Cr. of which Rs.180.00 Cr. will be funded through term loan and balances from promoters' sources.

The gearing of the group continues to remain comfortable at 0.66 times as on March 31, 2023 as compared to 0.55 times as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) also stood comfortable at 0.83 times as on March 31, 2023 as against 0.67 times as on March 31, 2022. Further, the Debt/ EBITDA of the group stood moderate at 2.53 times as on March 31, 2023 as against 1.73 times as on March 31, 2022. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 5.14 times as on March 31, 2023 and Debt Service Coverage Ratio (DSCR) at 2.57 times as on March 31, 2023. The Net Cash Accruals/Total Debt (NCA/TD) moderated and stood at 0.25 times as on March 31, 2023.

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.

Weaknesses

Working capital intensive nature of operations

The working capital management of the group is intensive in nature marked by Gross Current Assets (GCA) of 169 days in FY2023 as against 112 days in FY2022. The high GCA days are primarily on account of the moderate inventory period, increase in other current assets and cash & bank balance. The inventory days stood at 70 days in FY2023 as compared to 74 days in FY2022. 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 22 days in FY2023 as compared to 17 days in FY2022. Further the average bank limit utilisation of the group stood moderate at 75.53 percent for the last 8 months ended May 2024.

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.

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

- Sustainable improvement in the scale of operations along with strengthening of profitability margins and financial risk profile of the group.
- Any elongation of working capital cycle.
- Timely completion of the ongoing project.

Liquidity Position: Adequate

The group has a adequate liquidity position marked by sufficient net cash accruals as against the long term maturing debt obligations. The net cash accruals stood at Rs.69.66 Cr. as on March 31, 2023 as against long term debt repayment of only Rs.12.95 Cr. over the same period. Further, the group is expected to generate net cash accruals in the range of Rs.62.59 Cr. – 129.86 Cr. in FY2024 -FY2026 against its debt obligations in the range of Rs.32.79 Cr- 18.45 Cr. for the same period.

The fund-based limit remains moderately utilised at 75.53 per cent over the 8 months ended May,2024. The current ratio stood comfortable at 1.51 times as on March 31, 2023. The cash and bank balances of the group stood at Rs.98.19 Cr. as on March 31, 2023. However, the working capital-intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 169 days as on March 31, 2023 as against 122 days as on March 31, 2022.

Acuité believes that going forward the group will improve its liquidity position due to the improving accruals, completion of its CAPEX plans in FY2025 and no further CAPEX plans over the medium term

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 adequate 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1008.30	864.40
PAT	Rs. Cr.	46.96	88.47
PAT Margin	(%)	4.66	10.23
Total Debt/Tangible Net Worth	Times	0.66	0.55
PBDIT/Interest	Times	5.14	7.09

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

Not applicable

Any Other Information

None

Applicable Criteria

- 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>
- 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, 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
28 Apr 2023	Cash Credit	Long Term	12.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	5.25	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	9.00	ACUITE A2+ (Assigned)
06 Apr 2023	Cash Credit	Long Term	12.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.25	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Reaffirmed)
22 Mar 2022	Cash Credit	Long Term	12.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.25	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Reaffirmed)
03 Mar 2022	Letter of Credit	Short Term	16.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Cash Credit	Long Term	8.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	16.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	5.25	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
22 Jul 2021	Term Loan	Long Term	5.25	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	16.00	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	16.00	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
Axis Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.00	ACUITE A2+ Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	47.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A2+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.55	ACUITE A- Stable Reaffirmed
IDBI Bank Ltd.	Not avl. / Not appl.	Term Loan	31 Aug 2014	Not avl. / Not appl.	31 Mar 2025	Simple	0.70	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Term Loan	28 Feb 2023	Not avl. / Not appl.	31 Mar 2028	Simple	4.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Term Loan	28 Feb 2023	Not avl. / Not appl.	31 Mar 2028	Simple	9.00	ACUITE A- Stable Assigned

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr.No.	Company Name
1	G R Sponge and Power Limited (GRSPL)
2	Chaman Metalics Limited (CML)
3	G R Krishna Ferro Alloys Private limited [erstwhile Prithvi Ferro Alloys Private Limited] (GRKFAPL)
4	N R Sponge Private Limited (NRSPL)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Thejaswini P V Manager-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Associate Vice President-Rating Administration 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.

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