

Press Release

OM Sairam Steels And Alloys Private Limited

December 30, 2021



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00		ACUITE A2+ Assigned
Bank Loan Ratings	200.00	ACUITE A- Stable Assigned	
Total	270.00	-	-

Rating Rationale

Acuité has assigned 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**) to the Rs. 270.00 Cr bank facilities of Om Sairam Steels and Alloys Private Limited (OSSAPL). The outlook is '**Stable**'.

The rating on OSSAPL takes into account the sound business position of the company as reflected from its growing revenue trend coupled with improving profitability. Further, it is also supported by the management's long track record in the sector, healthy financial position characterized by robust debt coverage indicators, efficient working capital management and the ongoing capacity expansion programme that will lead to a significant scale up of the business. The rating also draws comfort from the adequate liquidity position of the company. These strengths are however, partly offset by the cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

About the Company

Incorporated in 2006, Omsairam Steels & Alloys Pvt. Ltd (OSSAPL) is a Jalna, Maharashtra based semi-integrated steel plant, promoted by Mr. Rajendra S. Bharuka and his brother Mr. Dinesh S. Bharuka. Presently, OSAPL is having installed capacity of manufacturing 2,50,000 MTPA TMT steel bars in its rolling division by using its own MS Billets manufactured in its melting division deploying hot rolling technology. The company now proposes to double the production capacity of the unit for manufacturing both MS billets and TMT bars by installing furnaces and rolling mills of 2,64,000 MTPA and 3,00,000 MTPA, respectively. The company sells its TMT bars in the name of Uma TMT 500 which is well established brand in Maharashtra, Gujarat, Goa, Karnataka and Andhra Pradesh. The company offers a wide range of products like billets and end products like construction bars and round bars used by the construction Industry and automobile industry respectively.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of OSSAPL to arrive at the rating.

Key Rating Drivers

Strengths

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

OSSAPL has a long operational track record in the iron & steel industry of two decades. Mr. Dinesh S. Bharuka started his career in the year 1986 with his family business of dealing in scrap

metal to various steel processing plant in Maharashtra. In the year 2003, he along with his brother Mr. Rajendra Bharuka created this company and entered into steel business. Acuité believes that the long operational track record of OSSAPL and promoters' extensive understanding and expertise will support the company's growth plans going forward.

- **Strong business risk profile**

The strong business risk profile of the company is supported by the semi integrated nature of operations with a manufacturing unit for both billets and TMT Bars. The billets are mostly consumed in-house for production of TMT bars which results in a nominal logistic cost. Further, captive consumption of billets for TMT bars manufacturing internally provides a competitive edge over other regional re-rollers without backward integrated facilities. The surplus production of billets is sold to other re-rollers in the market. Moreover, the company's plants are favorably located, in Jalna, Maharashtra. Acuité believes the semi-integrated nature of operations of the company enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent.

The company has achieved revenues of Rs. 791.84 Cr in FY2021 as compared to revenues of Rs. 735.99 Cr in FY2020. Further, during the current year the company has achieved Rs 597.52 crore in the H1 FY22 (Provisional). The growth can be attributed to commissioning of the enhanced capacity of Billets to 336,000 MTPA in FY2021 and the management's focus to increase its dealer-distributors base in Central and Eastern India. The volume sales of billets have also increased significantly during FY 2021.

The operating margin rose significantly to 9.26 per cent as on 31st March, 2021 from 5.21 per cent in FY2020. The PAT margin of the company increased to 4.86 per cent in FY2021 from 2.10 per cent in FY2020. The increase in profitability margins translated into healthy Return on Capital Employed (ROCE) of the company, which stood at 25.89 per cent as on FY2021 as compared to 13.59 per cent as on FY2020. While there has been a strong growth in profitability levels in FY21 on account of a pickup in demand and better price realizations, sustenance at current levels would be a key monitorable going forward.

Acuité nevertheless, believes that the company's business position would remain strong and its scale of operations would improve over the medium term backed by their planned capacity additions.

- **Healthy financial risk profile**

The company's financial risk profile is marked by healthy networth base, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.163.36 Cr as on March 31, 2021 from Rs.124.87 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the firm stood below unity at 0.54 as on March 31, 2021 as compared to 0.64 as on March 31, 2020. The debt of Rs 87.47 Cr mainly consists of working capital borrowing of Rs.71.12 crore, long term borrowings of Rs.7.61 Cr, unsecured loans of Rs.5.41Cr and current maturity of Rs.3.33 Cr as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.02 times as on March 31, 2021 as against 1.48 times as on March 31, 2020. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 8.29 times as on March 31, 2021 and Debt Service Coverage Ratio at 6.79 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.59 times as on March 31, 2021.

The company has undertaken a capex to expand its production capacity for both MS billets and TMT bars by installing furnaces and rolling mills at a total project cost of Rs.152.09 Cr of which Rs.90 Cr would be funded through term loan and balance from promoters' sources. The funding risk is mitigated with the financial tie up completed for the entire quantum of Rs 90 crore of term loan. In this project, up to September 2021, the company has incurred Rs.75.20 Cr which has been funded by from Rs.40.24 Cr of internal accruals and Rs.34.96 Cr of term loans.

Acuité believes that going forward, despite having debt funded capex plans, the financial risk profile of the company will remain healthy backed by steady accruals.

Efficient working capital management

The efficient working capital management of the company is marked by Gross Current Assets (GCA) of 80 days as on March 31, 2021 as against 81 days as on March 31, 2020. The comfortable GCA days are primarily on account of comfortable inventory holding level of 37 days as on March 31, 2021 as compared to 47 days as on March 31, 2020. Further, the debtor period stood low at 33 days as on March 31, 2021 as compared to 36 days as on 31st March 2020. Going forward, Acuité believes that the working capital operations of the company will remain at same level as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

Weaknesses

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

The steel rolling industry remains 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. Business operations also face competition from cheaper Indonesian and Chinese imports. Substantial increase in imports may adversely impact realisation and volumes, and hence, remains a key monitorable.

Rating Sensitivities

- Sustainability in revenue growth and profitability margin
- Elongation of working capital cycle
- Any significant change in the demand and pricing scenario
- Timely completion of the ongoing capex

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by high net cash accruals stood at Rs.51.38 Cr as on March 31, 2021 as against no long term debt repayment over the same period. The cash and bank balances of the company stood at Rs.0.71 Cr as on March 31, 2021 as compared to Rs.0.17 Cr as on March 31, 2020. Further, the efficient working capital management of the company is marked by Gross Current Assets (GCA) of 80 days as on March 31, 2021 as against 81 days as on March 31, 2020. The company has not availed loan moratorium but applied for additional Covid loan of Rs 3.62 Cr. The current ratio stood moderate at 1.32 times as on March 31, 2021. However, the fund based limit remains utilised at 81 per cent over the seven months ended September, 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on OSSAPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, strong business risk profile healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustenance 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	791.84	735.99
PAT	Rs. Cr.	38.50	15.42
PAT Margin	(%)	4.86	2.10
Total Debt/Tangible Net Worth	Times	0.54	0.64
PBDIT/Interest	Times	8.29	5.64

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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ Assigned

HDFC Bank Ltd	Not Applicable	Term Loan	01-01-2021	9.60	30-09-2027	25.00	ACUITE A- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	28-12-2020	11	31-01-2028	65.00	ACUITE A- Stable Assigned
Union Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	5.00	ACUITE A- Stable Assigned

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Srijita Chatterjee Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	

About Acuité Ratings & Research

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