

Press Release

OM Sairam Steels And Alloys Private Limited

March 06, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	95.00	ACUITE A- Stable Assigned	-
Bank Loan Ratings	236.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	90.00	-	ACUITE A2+ Assigned
Bank Loan Ratings	70.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	491.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 236.00 Cr bank facilities and its short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 70.00 Cr bank facilities of Om Sairam Steels and Alloys Private Limited (OSSAPL). The outlook is '**Stable**'.

Further, Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **Acuite A minus**) on Rs. 95.00 Cr bank facilities and its short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 90.00 Cr bank facilities of Om Sairam Steels and Alloys Private Limited (OSSAPL). The outlook is '**Stable**'.

Reason for rating

The rating continues to reflect the strong business risk profile as well as healthy financial risk profile of the company characterized by robust debt coverage indicators. Further, it is also supported by the management's long track record in the sector, efficient working capital management and the ongoing capacity expansion programme that is likely to lead to a significant scale up of the business. The company's revenue improved and stood at Rs.1317.62 crore in FY2022 as against Rs.791.84 crore in FY2021. The growth in the revenue is primarily on account of higher realisations as steel prices soared during that period. 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. 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.

Improving business risk profile

The company's revenue improved and stood at Rs.1317.62 crore in FY2022 compared to revenue of Rs.791.84 crore in FY2021. The improvement in the revenues in FY2022 is due to the increase in the capacity in FY2021 as well as increase in the price realization of products. In 9MFY23, the company's revenue stood at Rs.1027 crore. The operating profit margin of the company declined marginally and stood at 8.42 percent in FY2022 compared against 9.26 percent in FY2021. The company has acquired 'Sanvijay Alloys and Power Limited' in FY2023 as a part of their backward integration initiative. SAPL is engaged in the manufacturing of sponge iron, a key raw material of the company. Further, 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.150 crore of which Rs.80 crore is funded through term loan and balance from promoters' sources. Majority of the capital expenditure has already been completed and the benefits of the same is expected to be reflected in the revenues from FY2024. Along with this, the company has also purchased a power plant in FY2023, and this is expected to benefit the company through the reduction of the power costs. Such acquisition and capacity expansion will help the company to reduce its costs, further leading to better margins in medium term. Acuité believes that the business risk profile will improve in the medium term.

Healthy financial risk profile

The company's financial risk profile is marked by healthy networth base, moderate gearing and strong debt protection metrics. The tangible net worth of the company stood at Rs.224.29 crore as on 31 March 2022 as against Rs.163.36 crore as on 31 March 2021. The increase in the networth is due to accretion of profits to reserves. The management follows a moderately aggressive financial policy reflected by its peak gearing levels at 1.13 times as on 31 March 2022 as against 0.54 times as on 31 March 2021. The total debt of the company stood at Rs.254.05 crore as on 31 March 2022. It comprised of long-term debt of Rs.78.33 crore, unsecured loans of Rs.53.83 and short-term debt of Rs.116.12 crore as on 31 March 2022. The company, for the debt funded capacity expansion plans and acquisitions the company has availed Rs.56.00 crore loan in FY2022 leading to higher gearing levels in FY2022. The Interest Coverage Ratio (ICR) of the company stood at 7.62 times for FY2022 against 8.29 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 5.01 times for FY2022 against 6.79 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.59 times for FY2022 as against 1.02 times in FY2021. Acuité believes that going forward, the financial risk profile of the company is likely to remain healthy backed by steady accruals.

Efficient working capital management

The company has efficient working capital operations as evident from Gross Current Asset (GCA) of 77 days as on March 31, 2022 as against 80 days as on March 31, 2021. The inventory levels have improved and stood at 32 days for FY2022 compared against 37 days for FY2021. Average inventory holding period for the raw materials is around 2 months and the inventory holding period for finished goods is around 10-15 days. The debtor days stood at 21 days for FY2022 against 33 days for FY2021. The average credit period allowed to the customers is around 30-40 days. The creditor days of the company stood at 18 days for FY2022 as against 17 days for FY21. The average credit period received from the customers is around 5-7 days. The average utilization of the bank limits of the company remains high at ~96 percent in last six months ended November' 2022. 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
Timely completion of the ongoing capex

Material covenants

None

Liquidity position: Adequate

The company has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.75.47 crore in FY2022 compared against maturing debt obligation of Rs.3.33 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.94.77-118.99 crore during 2023-24 period while its maturing debt obligations is estimated to be in the range of Rs.26.90-27.96 crore during the same period. The average utilization of the CC limits of the company remains high at ~96 percent in last six months ended November'2022. The company maintains unencumbered cash and bank balances of Rs.2.31 crore as on March 31, 2022. The current ratio stood at 1.25 times as on March 31, 2022. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1317.62	791.84
PAT	Rs. Cr.	60.93	38.50
PAT Margin	(%)	4.62	4.86
Total Debt/Tangible Net Worth	Times	1.13	0.54
PBDIT/Interest	Times	7.62	8.29

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

None

Any other information

None

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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
07 Feb 2023	Term Loan	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	54.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Working Capital Term Loan	Long Term	17.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	71.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A2+ (Reaffirmed)

30 Dec 2021	Cash Credit	Long Term	18.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	36.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	60.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Short Term	30.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Long Term	30.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	65.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE A- Stable (Assigned)
	Working Capital Demand Loan	Long Term	5.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE A- Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	107.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A2+ Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	54.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE A- Stable Reaffirmed
Bajaj Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	35.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	17.00	ACUITE A- Stable Reaffirmed

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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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