

Press Release

Spintech Tubes Private Limited

November 04, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	455.00	ACUITE BBB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	455.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has **reaffirmed the long-term rating of 'ACUITE BBB+' (read as ACUITE B plus)** to the Rs. 455.00 Cr bank facilities of Spintech Tubes Pvt. Ltd. (STPL). The outlook is **'Stable'**.

Rationale for the rating

The rating reaffirmation of the group takes into account the sound business position of the group as reflected from its growing revenue trend coupled with management's long track record in the sector, healthy financial profile characterized by comfortable gearing and strong debt protection metrics. The rating also draws comfort from the strong liquidity position of the group, aided by prudent working capital management, comfortable current ratio and cushion available in the group's working capital limits. The ratings, however, factor in the group's significant capital expenditure (capex) plans in Spintech Tubes Pvt Ltd to be incurred over FY2023-FY2025, which is exposed to implementation risk and also result in a marginal moderation in their gearing levels. Also rating is partly offset by the cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

About Company

STPL was incorporated by the Gagan group in February, 2017 for setting up an integrated manufacturing unit at Jamuria, West Bengal. STPL currently has undertaken a project for setting up a pellet plant (600,000 MTPA), a sponge iron plant (150,000 MTPA), a SMS (180,000 MTPA), a Rolling mill (180,000 MTPA) and captive power plant of 20MW. The total cost of the project is envisaged at Rs. 790.81 Cr which is proposed to be funded by a term loan of Rs. 455 Cr, and balance through internal accruals and promoter's contribution. The Company has already incurred around Rs. 125.54 Cr till September 2022, entirely funded through promoter's fund. However financial closure has also been achieved. Expected COD of the project is H1FY25.

About the Group

The group consists of 3 more entities namely Gagan Ferrotech Ltd. (GFL), Gajanan Iron Pvt. Ltd. (GIPL) and Shakambhari Overseas Trades Pvt. Ltd. (SOTPL).

Incorporated in 1993, Gagan Ferrotech Ltd. (**GFL**) is the flagship entity of the Gagan Group. GFL is currently engaged in the manufacturing of sponge iron, billets and TMT bars. The manufacturing unit is located at Asansol. Currently, Gagan Ferrotech Ltd. has integrated

steel manufacturing facilities for sponge iron (capacity- 2,52,000 MTPA), Billet (capacity – 3,48,000 MTPA), TMT bars and wires (capacity – 3,36,000 MTPA). In addition, the company also has a captive power plant of 20 MW.

GIPL was incorporated in 2005 and is engaged in manufacturing of MS Angles (96,000 MTPA). In Gajanan there is a project capex of Rs 55 crores which will be incurred partly in FY 23 and partly in FY 24. (Out of the total capex of Rs 55 Cr. ~ Rs 40 Cr. is expected to be incurred this year and balance Rs 15 Cr. is expected to be incurred during FY 24. The total debt for the same is Rs 39 Cr. out of which Rs 28 Cr. is expected to be availed this year and the balance next year.

SOT PL is engaged in manufacturing of MS Ingots (46,200 MTPA) and Industrial Gases (3,240,000 Cubic Meter). Capex has been undertaken for the foundry Division of SOTPL (Capacity- 12000 MTPA), of which Rs 17.20 Cr has been incurred from its own fund till September'22. Total Cost-Rs 75 Cr. of which Rs 37.50 Cr. will be from term loan and balance from own fund. Project will commence from the 4 th Quarter FY 24.

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 Gagan Ferrotech Ltd (GFL), Gajanan Iron Pvt. Ltd. (GIPL), Shakambhari Overseas Trades Pvt. Ltd. (SOTPL) and Spintech Tubes Pvt. Ltd. (STPL) together referred to as the 'Gagan Group' (GG). The consolidation is in the view of common promoters and management, intercompany holdings, operational linkages between the entities and a similar line of business.

Key Rating Drivers

Strengths

Long track record of operations and strategic location of the plant

Promoters are associated with the steel industry for over two decades and have established forward as well as backward integrated operations. Group has a diversified product mix which includes pellets, sponge iron, billets, TMT bars and industrial gases. Acuité believes that the long operational track record of Gagan group and promoters' extensive understanding and expertise will support the group's growth plans going forward. Moreover, the group has a locational advantage as the plants are located in the industrial area of Durgapur, West Bengal, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

Healthy financial risk profile

The group's financial risk profile is marked by healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the group increased to Rs.815.37 Cr as on March 31, 2022 from Rs.751.40 Cr as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans to the tune of Rs.84 Cr as on March 31, 2022 as part of network as these loans are subordinated to bank debt. Gearing of the group stood comfortable below unity at 0.43 times as on March 31, 2022 as against 0.23 times as on March 31, 2021, although there was some increase in the debt levels in FY2022 due to the higher working capital requirements and planned capex towards foundry division in SOTPL. Acuité notes that the company has been regularly incurring capex in the last few years for debottlenecking and improving efficiency. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.61 times as on March 31, 2022 as against 0.38 times as on March 31, 2021. The strong debt protection metrics of the group is marked by

Interest Coverage Ratio at 8.86 times and Debt Service Coverage Ratio at 3.17 times as on March 31, 2022. The surge in earnings in FY2022 supported by high accruals led to further improvement in the credit metrics. While the metrics are likely to moderate due to the ongoing planned capex, they would still remain comfortable. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.27 times as on March 31, 2022. Acuité expects while these new capex initiatives would increase the debt levels, healthy revenues and profits generated from the existing business are expected to adequately support the financial profile over the medium term, followed by limited debt repayment obligations.

Capex of ~Rs 800 - 850 Cr. is expected over the next 2-3 years in the group companies, which is expected to be largely funded by a term loan of Rs. ~Rs 500 Cr, but given the healthy cash generation, Acuité does not foresee any material impact on group's capital structure and debt metrics. Higher-than-expected debt-funded capex resulting in deterioration in debt metrics and capital structure will remain a key rating sensitivity factor.

Healthy operating efficiency driven by integrated operations and prudent working capital management

Buoyant demand, increased contribution from the recently enhanced capacities, better product diversity and favourable sales realisations driven by high steel prices boosted operating performance in FY2022. Gagan group witnessed an improvement in its scale of operations marked by its revenues of Rs. 1967.56 Crs in FY2022 as against Rs. 1241.20 Crs in FY2021. The group also operated at a healthy capacity in FY22 driven by increase in demand of steel products. The integrated nature of operations of the group enhances the operating efficiencies with presence in steel value chain right from pellets to long products. It provides the group with a flexibility to sell intermediate products and also, use them for captive consumption. The facilities are also supported by captive power plants, waste heat recovery plants, which result in cost efficiencies besides presence across value chain. Further, the group has already achieved Rs. 1026.07 Cr. till September 2022 (Provisional).

Working capital management of the group has been prudent, which is reflected from improved GCA days of 108 days as on March 31, 2022 as compared to 123 days as on March 31, 2021. This is supported by low debtor period of 24 days as on March 31, 2022, since the group majorly sells to the reputed clientele and follows an efficient collection mechanism. The inventory holding stood moderate at 59 days in 31st March 2022 as compared to 63 days as on 31st March 2021 as the company maintains 2-2.5 months of inventory of iron ore and coal which to mitigate the price volatility. However, significant amount of advances has been given to the suppliers. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and moderate inventory levels over the medium term.

Weaknesses

Inherent cyclical nature of the steel industry with fluctuations in prices of raw material and finished goods

The group's performance remains vulnerable to cyclical nature in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. The operating margin moderated to 6.26 per cent in FY2022 from 7.69 per cent in FY2021 on account of rise in energy and raw material costs (coking and thermal coal, refractories and ferroalloys). The PAT margin also declined to 3.10 per cent in FY2022 from 3.81 per cent FY2021 due to subsequent increase in interest cost on account of higher working capital requirements. While the government has removed import duties on raw materials like coking coal in May, it has also imposed export duties on steel products, to curb inflation and to increase supply in the domestic market. Acuité expects the resulting excess capacity will trigger a price decrease for finished steel goods. Therefore, margins will moderate further in FY23. However, the integrated nature of operations of the flagship entity, GFL, enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. Also, the end-user segments such as real estate, civil construction and engineering also display cyclical nature. Further, operating margins are vulnerable to volatility in the input prices (iron ore and coal) as well as realisation from finished goods. The prices and supply of the main raw material, iron ore, directly impacts the realisations of finished goods.

Any significant reduction in the demand and prices adversely impacting the operating margins and cash accruals of the group will remain a key monitorable.

Rating Sensitivities

- Sustainability in revenue growth with continued volume growth, supported by high capacity utilisation
- Elongation of working capital cycle
- Timely completion of the ongoing capex

Material Covenants

None

Liquidity Position: Strong

The group's liquidity is strong marked by high net cash accruals stood at Rs.94.02 Cr as on March 31, 2022 as against long term debt repayment of Rs. 18.56 Cr over the same period. The fund based limit remains moderately utilised at only ~46.63 per cent over the seven months ended September, 2022. The current ratio stood strong at 2.15 times as on March 31, 2022. The cash and bank balances of the company stood at Rs.9.23 Cr as on March 31, 2022 as compared to Rs.5.94 Cr as on March 31, 2021. Further, the working capital management of the company is efficient as reflected by Gross Current Assets (GCA) of 114 days as on March 31, 2022 as against 123 days as on March 31, 2021. Acuité believes that going forward the group will continue to maintain adequate liquidity position owing to steady accruals backed by improvement in earnings led by high demand.

Outlook:

Acuité believes that the outlook on the 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 efficient working capital management. 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 Group's financial risk profile 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.	1967.56	1241.20
PAT	Rs. Cr.	63.96	47.30
PAT Margin	(%)	3.25	3.81
Total Debt/Tangible Net Worth	Times	0.43	0.23
PBDIT/Interest	Times	8.86	6.76

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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
07 Jan 2022	Proposed Bank Facility	Long Term	440.00	ACUITE BBB+ Stable (Assigned)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	165.00	ACUITE BBB+ Stable Reaffirmed
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	70.00	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	150.00	ACUITE BBB+ Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	70.00	ACUITE BBB+ 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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