

Press Release

SMO Ferro Alloys Private Limited

September 01, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.50	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	13.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.13.50 Cr bank facilities of SMO Ferro Alloys Private Limited (SMO). The outlook is '**Stable**'.

The rating on the group is driven by the group's long and diversified track record of operations, above average financial risk profile and high profitability margins. The rating is however constrained by the marginal growth in topline despite a significant upsurge in the ferro alloy industry since the last two fiscals, working capital intensive nature of operations, presence in highly competitive and fragmented industry along with inherent risk associated with partnership/proprietorship concern.

About the Company

Incorporated in 2018, SMO Ferro Alloys Private Limited (SMO) is a Ratlam, Madhya Pradesh based company engaged in the business of manufacturing ferro alloys. The company is headed by Mr. Saiyyed Akhtar Ali and Mr. Saiyyed Avesh Ali.

About the Group

Established in 2003, Saiyyed Akhtar Ali (SAA) is a Ratlam, Madhya Pradesh based firm. The partners, Mr. Saiyyed Akhtar Ali, Mr. Mohabbat Ali (brother of Akhtar Ali), Mr. Saiyyed Afsar Ali (brother of Akhtar Ali) and Mr. Saiyyed Avesh Ali (son of Mr. Akhtar Ali) enjoy profit sharing ratio of 2:1:1:1. The firm is engaged in the business of civil construction (government and nongovernment work), trading of silico manganese, supplier of sand, gitti, stone chips and other construction material.

Established in 2016, VR Construction (VRC) is a Ratlam, Madhya Pradesh based firm engaged in the business of civil construction, trading of silico manganese, supplier of sand, gitti & other construction material and manufacturing of crushed stones. VRC is promoted and headed by Mr. Mohabbat Ali.

Established in 2016, SA Infra (SAI) is a Ratlam, Madhya Pradesh based firm. The firm undertakes civil construction work, trades silico manganese, supplies stone chips. SAI is promoted and headed by Mr. Saiyyed Afsar Ali.

Established in 2017, Owais Ali Overseas (OAO) is a Ratlam, Madhya Pradesh based firm engaged in the business of manufacturing and trading of Manganese oxide and silico manganese. The firm is headed by Mr. Saiyyed Avesh Ali.

Established in 2017, Garib Nawaz Infra (GNI) is a Ratlam, Madhya Pradesh based firm engaged in the business of manufacturing and trading of Manganese oxide and silico manganese and supplying stone chips. The firm is headed by Mr. Hasim Khan and Mr. Saiyyed Mohabbat Ali and the partners share profits in the ratio of 3:7.

Established in 2018, MO Infra (MOI) undertakes trading of silico manganese. The firm is headed by Mr. Saiyyed Akhtar Ali.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profiles of Saiyyed Akhtar Ali (SAA), V R Construction (VRC), SMO Ferro Alloys Private Limited (SMO), Gharib Nawaz Infra (GNI), Owais Ali Overseas (OAO), SA Infrastructure (SAI) and M O Infra (MOI), together referred as the SAA group. The consolidation is in view of common management, operational & financial linkages between the entities and similar line of business.

Key Rating Drivers

Strengths

Experienced management and diversified business operations

SAA group has diversified business interest and the promoters have around three decades of experience. The group started its business in 1995 and later formed a partnership firm in 2003 as M/s Saiyyed Aktar Ali. The business is managed by Mr. Saiyyed Aktar Ali, his three brothers and sons. The group's three major business segments include civil construction which contributes around 20 per cent, manufacturing of ferro alloys contributes around 40 per cent and trading of ferro alloys contributes nearly 40 per cent. The diversified revenue streams mitigates the impact of cyclicalities and competitive pressures in any particular business segment. In addition, the group has 4 running leased quarry of stones in Madhya Pradesh. Acuité believes, the long experience of the promoters will continue to support the business going forward.

Improvement in business risk profile

SAA group's top line has increased Rs.206 Cr in FY2022 (prov.) from Rs.131 Cr in FY 2019, thereby registering a 3-year CAGR growth of 16.29 per cent on a consolidated basis. The increase in turnover is due to stabilization of the manufacturing stream. The turnover from manufacturing divisions have increased from Rs.5 Cr in FY 2019 to Rs.120 Cr in FY 2022. The trading and civil construction business has achieved growth of 20- 25 per cent during the last 3 years. In addition, the group has also commenced an oxygen manufacturing plant required for the manufacturing of ferro alloys where excess production will be sold outside which is expected to contribute Rs.20-25 Cr of additional revenue. Further, the civil construction business has healthy prospects as the SAA group has a healthy unexecuted orders in hand of Rs.295 Cr which would be executed in the next 2- 3 years. In the 1st quarter of FY2023, the group has achieved of around Rs.67 Cr (prov.).

Above average financial risk profile

The group's above average financial risk profile is marked by healthy networth base, low gearing and healthy debt protection metrics. The tangible net worth of the group improved to Rs.124.25 Cr as on 31st March, 2022 (prov.) from Rs.105 Cr as on 31st March, 2021 due to accretion of reserves. Gearing of the group stood comfortable levels same as 0.61 times as

on March 31, 2022 (prov.) as against 0.62 times as on 31st March, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) reduced to 0.79 times as on March 31, 2022 (prov.) as against 0.97 times as on March 31, 2021. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio at 3.38 times and Debt Service Coverage Ratio (DSCR) at 1.63 times as on March 31, 2022 (prov.). NCA/TD stood comfortable at 0.28 times in FY2022 (prov.). Going forward, Acuité believes that the financial risk profile of the group will remain at similar levels backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The group's working capital operations are intensive marked by Gross Current Asset (GCA) of 192 days as on 31st March, 2022 (prov.) as against 214 days as on 31st March, 2021. GCA days are high as the company has to maintain huge inventory due to its diversified line of operations and is required to maintain deposits arising out of contractual obligations. The reduction in GCA days is mainly on account of reduction in inventory days which stood at 133 days as on 31st March, 2022 (prov.) as compared to 170 days as on 31st March, 2021. The debtor days also stood comfortable at 34 days as on 31st March, 2022 (prov.) as against 35 days as on 31st March, 2021. Acuité believes that the working capital of the group will remain at similar levels over the medium term due to the nature of operations.

Presence in highly competitive and fragmented industry

The group is operating in competitive and fragmented nature of industry. There are several players who are engaged in the same line of business in organized and unorganized sector. Moreover, the profit margins of the group remains exposed to inherent cyclicity in the steel industry and volatility in raw material prices. Further, the operations are constrained in the state of Madhya Pradesh leading to susceptibility to any adversities in the region which may impact the operations.

Constitution as a partnership/proprietorship entity

SAA group comprising of total 6 partnership and proprietorship entity, is exposed to inherent risk of the partners' capital being withdrawn at time of personal contingency and entity being dissolved upon the death/insolvency of the partner. Furthermore, such entities have restricted access to external borrowing.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Improvement in the scale of operations while sustaining its profitability margin
- Elongation in working capital cycle
- Sustenance of the financial risk profile

Material covenants

None

Liquidity Position: Adequate

The group's liquidity position is adequate marked by healthy net cash accruals of Rs.21.32 Cr in FY2022 (prov.) against long term debt obligations of Rs.9.48 Cr over the same period. The group maintained unencumbered cash and bank balances of Rs.3.67 Cr as on March 31, 2022 (prov.). The current ratio of the group stood comfortable at 1.35 times as on March 31, 2022 (prov.). Liquidity is also supported by need based unsecured loans extended by the promoters outstanding at Rs.28.80 Cr as on March 31, 2022 (prov.). However, the fund based limit remained utilised at 86 per cent over the six months ended May, 2022. Acuité believes that the liquidity of the group is likely to remain at adequate levels over the medium term on account of healthy cash accruals.

Outlook: Stable

Acuité believes that the outlook of the group will remain stable over the medium term backed by its experienced management, diversified line of operations and above average

financial risk profile. The outlook may be revised to 'Positive' in case the group registers higher than expected growth in revenues while sustaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins or significant elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	205.92	176.57
PAT	Rs. Cr.	15.71	13.00
PAT Margin	(%)	7.63	7.36
Total Debt/Tangible Net Worth	Times	0.61	0.62
PBDIT/Interest	Times	3.38	3.15

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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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