Press Release
SMO FERRO ALLOYS PRIVATE LIMITED
November 30, 2023
Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed 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. The outlook remains **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the group's long and diversified track record of operations, the above average financial risk profile and increase in the scale of operations of the group. The rating is however constrained by the group's working capital intensive nature of operations, and the 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 2018, MO Infra (MOI) undertakes trading of silico manganese in Madhya Pradesh. The firm is headed by Mr. Saiyyed Akhtar Ali.

Established in 2003, Saiyyed Akhtar Ali (SAA) is a Ratlam, Madhya Pradesh based firm. The partners are 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). 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 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.

Based in Ratlam, Madhya Pradesh, SA Infra (SAI) is established in 2016. 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 based in Ratlam, Madhya Pradesh. The firm is 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.

Unsupported Rating
Not Applicable

Analytical Approach
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 to as the SAA group. The consolidation is in view of common management, operational & financial linkages between the entities and similar line of business.

Extent of Consolidation
Full

Key Rating Drivers

Strengths
Long track record and diversified business operations
The group has established a long track record of operations of around three decades. SAA group has 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, along with his three brothers and sons. The group has a diversified stream of operations with presence in civil construction which contributes around 20 per cent of the total revenues, manufacturing business around 40 per cent and trading of ferro alloys contributes nearly 40 per cent. The diversified revenue streams mitigate the impact of cyclicality and competitive pressures in any particular business segment. In addition, the group has 4 running leased quarry of stones in Madhya Pradesh. The group also has an oxygen manufacturing plant required for the manufacturing of ferro alloys where excess production is sold in the open market.
Acuité derives comfort from the group's diversified business operations and the long-standing presence in the industry.

Increase in the scale of operations
The scale of operations of the group increased to Rs.295.82 Cr in FY2023 from Rs.205.95 Cr in FY2022. The revenue levels are supported by the group's diversified stream of business marked by manufacturing, trading and civil construction works. In FY2023, the civil construction business achieved growth of 16 per cent and the trading business achieved growth of 7 per cent as against the previous year. Moreover, the group has achieved revenues of Rs. 144.14 Cr till September, 2023 (Provisional). Further, the group has an unexecuted orderbook to the tune of Rs. 625.89 Cr which is expected to be executed in the next 12 to 36 months. Out of these, orders of Rs.303.50 Cr and Rs.209.00 Cr received by SAA are orders for the capital expenditure plans in SMO to be executed at arm's length.
Acuité believes that, the scale of operations will improve further over the medium term owing to these capacity additions as well as increase from other segments of the business.

Above average financial risk profile
The group's above average financial risk profile is marked by the gradually improving networth, comfortable gearing and debt protection metrics. The adjusted tangible net worth of the group improved to Rs.185.07 Cr as on 31st March, 2023 from Rs.132.27 Cr as on 31st March, 2022 due to accretion to reserves. Acuité has considered unsecured loans of Rs.37.29 Cr as part of networth as the loans are subordinate to the bank debts. Further, the gearing of the group stood comfortable at 0.89 times as on March 31, 2023 as against 0.64 times as on 31st March, 2022. However, the slight moderation is due to increase in the total debt burden owing to rise in the working capital utilisation and the term debt over the same period. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at a moderate level of 1.13 times as on March 31, 2023 as against 0.91 times as on March 31, 2022. The comfortable debt protection metrics of the group is marked by Interest Coverage Ratio at 3.17 times and Debt

Service Coverage Ratio (DSCR) at 2.26 times as on March 31, 2023. NCA/TD stood low at 0.23 times in FY2023.
Acuité believes that, going forward, the gearing would witness moderations due to the ongoing capex, however, the financial risk profile of the company will remain above average backed by the steady accruals.

Weaknesses

Working capital intensive nature of operations

The group's working capital operations are intensive in nature marked by Gross Current Asset (GCA) of 247 days as on 31st March, 2023 as against 219 days as on 31st March, 2022. The rise in the GCA days are on account of the high inventory period due to maintaining huge inventory to support the diversified line of operations. Also, the group is required to maintain deposits arising out of contractual obligations. The inventory days rose to 202 days as on 31st March, 2023 from 160 days as on 31st March, 2022. The inventory period rose primarily due to the high stock of accumulated finished goods. However, the debtor days stood comfortable at 26 days as on 31st March, 2023 as against 36 days over the last year. The fund based limit utilisation stood at a moderate level of 75 per cent over the seven months ended October, 2023. The working capital requirement is partially supported by credit of around 42 days from the suppliers.
Acuité believes that the working capital cycle of the group will remain around similar levels over the medium term due to the nature of operations.

Constitution as a partnership/proprietorship entity

SAA group comprising of total 2 partnership and 4 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.

Rating Sensitivities

- Growth in the scale of operations while sustaining its profitability margin
- Elongation in working capital cycle
- Sustenance of the financial risk profile
- Timely completion of the capital expenditure projects
- Risk of capital withdrawal

All Covenants

None

Liquidity Position

Adequate

The group's liquidity position is adequate marked by healthy net cash accruals of Rs.38.77 Cr in FY2023 as against the long-term debt obligations of Rs.6.69 Cr over the same period. The improvement in the accruals over the years is mainly due to the increase in profitability. The group maintained unencumbered cash and bank balances of Rs.9.60 Cr as on March 31, 2023. The current ratio of the group stood comfortable at 1.45 times as on March 31, 2023. Liquidity is also supported by need based unsecured loans extended by the promoters outstanding at Rs.37.29 Cr as on March 31, 2023. The fund-based limit utilisation stood at a moderate level of 75 per cent over the seven months ended October, 2023.
Furthermore, the group is undergoing a capital expenditure project of installing a 3 electric ARC furnace. The project commenced on September, 2023 and is expected to be completed by June, 2024. The total cost of the project is around Rs. 230.00 Cr, out of which 74 per cent of the cost is to be financed by the bank limits and the rest by promoters' contribution.
Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of the steady 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, above average financial risk profile and the steadily improving business 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 along with improvement in the financial risk profile, working capital management and liquidity position. 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 financial risk profile or in case of delays in the completion of the projects or significant elongation in the working capital cycle.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	295.82	205.95
PAT	Rs. Cr.	32.29	15.84
PAT Margin	(%)	10.92	7.69
Total Debt/Tangible Net Worth	Times	0.89	0.64
PBDIT/Interest	Times	3.17	3.03

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

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
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.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
01 Sep 2022	Cash Credit	Long Term	13.50	ACUITE BBB- | 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
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.50	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.