



**Press Release**  
**GOA SPONGE AND POWER LIMITED**  
**July 17, 2023**  
**Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	77.50	ACUITE BB+   Stable   Assigned	-
Bank Loan Ratings	2.50	-	ACUITE A4+   Assigned
Total Outstanding Quantum (Rs. Cr)	80.00	-	-

**Rating Rationale**

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and its short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 80.00 Cr bank facilities of Goa Sponge and Power Limited (GSPL) . The outlook is '**Stable**'.

**Rationale for the rating**

Acuite notes that : while steel prices have moderated from the all-time highs of FY 2022 following the global uncertainty, GSPL's scale of operations are expected to improve further, supported by the ramping-up in its production capacity and new plant, driven by the Government's thrust on infrastructure projects and pick-up in demand from the end-user industries such as real estate and construction.

Further, the rating factors in the moderate working capital intensity supported by its low receivable and inventory holding periods. The rating also draws comfort from the extensive experience of the promoters in the steel industry. However, the rating is constrained by stretched liquidity position and moderate debt coverage metrics, in the backdrop of muted turnover and weak profitability in FY23.

Further, rating is constrained by the company's margins being susceptible to the volatility in raw material prices along with the company's exposure to the inherent cyclicality in the steel industry. The rating also considers the company's high client concentration risks, as the top three clients accounted for ~50 per cent of the overall sales in FY2023, and loss of any one of its key clients can have an adverse impact on the business performance.

**About the Company**

Incorporated in September 1995, Goa Sponge & Power Limited (GSPL) is a Delhi based company promoted by Mr. Sumit Singla. The Company has a semi-integrated steel plant, engaged in the manufacturing of sponge iron & billets having an installed capacity of 90,000 metric tons per annum (mtpa) and 300 metric tons per day respectively. Manufacturing facility of the company is located in Sanguem, Goa. The company purchases imported coal through domestic traders as its raw material for manufacturing of sponge iron.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profile of GSPL to arrive at the rating.



## **Strengths**

### **Long track record of operations and experienced management**

The company has a long operational track record in the iron & steel industry for more than 25 years. GSPL's board of directors comprise of four directors namely Shri Sumit Singla, Shri Neeraj Goyal, Mr. Nitin Goyal and Mr. Jogindra Kumar Singla. The management has more than two decades of experience in the steel industry. Acuité believes that the long operational track record of GSPL and long experience of the management will continue to benefit the company going forward, resulting in steady growth in the scale of operations.

### **Semi-integrated nature of operations and locational advantage**

GSPL has a partially integrated steel manufacturing facility, engaged in manufacturing of sponge iron and billets including a captive power plant. The sponge iron required for the production of billets is met entirely through the in-house production of sponge iron. The surplus production of sponge iron is sold to the other billet manufacturers in the market. Acuité believes that the semi-integrated nature of operations provides efficiency and mitigates the arising risks from the cyclical nature of steel industry to some extent. Further, ongoing the forward integration with successful commissioning of the rolling mill is expected to boost the profitability of the company as it will cater to business-to-consumer segment for selling of MS pipes and coils. The company's manufacturing facilities are located in Sanguem, Goa, which has proximity to various raw materials namely iron ore, pellets, pig iron and iron scrap, resulting in competitive prices with low transportation costs.

### **Above average financial risk profile**

The company's financial risk profile is above average marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth of the company improved to Rs.98.37 Cr as on March 31, 2022 from Rs.92.89 Cr as on March 31, 2021, on account of ploughing back of profits. However, Acuité notes that there has been withdrawal of equity in FY21 following the change in management. Nevertheless, the tangible networth of the company also improved as on March 31, 2023 (Prov) to Rs. 104.23 Cr. due to accretion of profits to reserve. Gearing of the company stood comfortable at 0.72 times as on March 31, 2022 and continued remain below unity as on March 31, 2023 due to limited reliance on external debt. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood improved to 1.29 times as on March 31, 2022 as against 1.33 time as on March 31, 2021. The moderate debt protection metrics of the company is marked by improved Interest Coverage Ratio (ICR) at 2.21 times in FY 2022 as against 1.72 times in FY 2021 on the back of surge in earnings in FY2022; and Debt Service Coverage Ratio (DSCR) at 0.87 times in FY 2022. The debt protection metrics remained almost at similar levels in FY23, even though the company has undertaken capex to set up a rolling mill of 1,25,000MT capacity for manufacturing pipes and coils in FY22, since the same is primarily funded through internal accruals and promoter's fund. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.13 times as on March 31, 2022. Acuité believes that GSPL's ability to complete the envisaged debt-funded capex in a timely manner, scale up in a profitable manner by achieving optimal capacity utilization levels and generate commensurate returns will be critical from the credit perspective. The total cost of the project is Rs.53.39 Cr of which till April 2023, the company has already incurred Rs.43.43 Cr, entirely funded through promoters' fund and internal accruals. The financial tie is yet to be completed for the term loan. Acuité does not foresee any material impact on company's capital structure and debt metrics, given the conservative leverage policy of the management. However, marketing risk for distribution of MS pipes and coils remains critical.

## **Weaknesses**

### **Medium scale of operations**

Supported by a strong rebound in steel demand post unlocking of the economy, GSPL witnessed an improvement in its scale of operations marked by its revenues of Rs. 656.37 Cr in FY2022 as against Rs. 392.81 Cr in FY2021. The average realisations for billet rallied sharply in FY2022, which led to the growth in the company's operating income in FY2022 supported by

healthy capacity utilization. However, Acuité notes that with the softening of realisations in FY23, in tandem with demand slowdown in the international market, the company is estimated to report muted growth in revenues in FY2023 of around Rs. 652.73 Cr (Est). The operating margins declined in FY2022 to 2.69 per cent in FY2022 from 4.99 per cent in FY2021, given the rise in raw material costs, mainly coal and iron ore. The operating margins are estimated to moderate further in FY2023, given the moderation in the realization of billet. The PAT margins however improved in FY22 to 0.83 per cent and is expected to improve further in FY23 over declining finance cost. However, Acuité expects with the commissioning of the new rolling mill plant in FY24, the company will cater to business-to-consumer segment for selling of MS pipes and coils, which would positively boost the profitability going forward. The new plant is the forward integration of the existing manufacturing facility, as billet will be consumed captively and enhance the operating efficiencies and mitigate the risks arising from the falling realisations and elevated coal and energy costs to some extent.

## **Exposure to the inherent cyclicality, competitive, and capital intensive nature of the steel sector**

The company's performance remains vulnerable to cyclicality in the steel sector given the close linkage between the demand for steel products, domestic, and global economy. While there has been a significant push by the government on steel-intensive sectors such as railways and infrastructure, any sustained downturn in demand will adversely impact performance of steel companies. The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies. Also, steel imports from other countries, mainly China, add to the competition. Additionally the domestic steel sector is fairly capital intensive.

### **Rating Sensitivities**

- Significant growth in revenue and profitability
- Weakening of the financial risk profile
- Improvement in fund based limit utilization
- Timely completion of capex

### **Material covenants**

None

### **Liquidity Position: Stretched**

The company's liquidity is stretched because of thin margins as reflected through low net cash accruals of only Rs.9.71 Cr (Prov) in FY 2023 as against long term debt repayment of Rs. 5.32 Cr (Prov) during the same period. This has resulted in higher dependence on working capital lines, as the fund based limit remained highly utilised at ~92.75 per cent over the six months ended April, 2023. The cash and bank balances of the company stood at only Rs.0.33 Cr as on March 31, 2022. However, the working capital management of the company is moderate as reflected by Gross Current Assets (GCA) of around 80-90 days (Prov) as on March 31, 2023 supported by efficient collection mechanism (~21 days) and moderate inventory levels (~52 days). Acuité believes that going forward the company is expected to maintain adequate liquidity position owing to improved accruals and stabilization of the calibrated capex.

### **Outlook: Stable**

Acuité believes that the outlook on the company will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, above average financial risk profile and moderate 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 company's financial risk profile or delay in completion of its projects or any 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.	656.37	392.81
PAT	Rs. Cr.	5.48	1.67
PAT Margin	(%)	0.83	0.42
Total Debt/Tangible Net Worth	Times	0.72	0.84
PBDIT/Interest	Times	2.21	1.72

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

Brickworks vide its press release dated 20.04.2023, had downgraded the company to BWR BB-/Stable/A4; Issuer Not Cooperating.

### 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

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](http://www.acuite.in).

### Rating History :

Not Applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Overseas Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A4+   Assigned
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	61.00	ACUITE BB+   Stable   Assigned
Indian Overseas Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	16.50	ACUITE BB+   Stable   Assigned

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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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