



Press Release
SKA ISPAT PRIVATE LIMITED
August 30, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	80.65	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	80.65	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**Acuite BBB-**' (read as **Acuite triple B minus**) on the Rs. 80.65 Cr bank facilities of SKA Ispat Private Limited. The outlook is '**stable**'.

Rating Rationale

The rating takes into account the long operational track record of Sunil Kumar Agarwal LLP, the flagship company of the group and its support to SKA Ispat Private Limited (SIPL) and SKA Steel and Power Private Limited (SSPPL). The rating also derives strength from the healthy scale of operations marked by significant improvement in the operating income in FY23 (Prov) to Rs 996.75 Cr against Rs 596.38 Cr in FY 2022 along with improvement in EBITDA margins to 3.94 per cent in FY2023 (Prov) as against 1.95 per cent in FY2022. Further, the rating factors in the efficient working capital management of the group marked by GCA days of 50 days in FY23 (Prov). The adequate liquidity position, as reflected in moderate utilisation of fund based limits and enough cushion in the cash accruals to service the debt obligation, further supports the rating. The rating, however, remains constrained by high gearing, nascent stage of operation and inherent cyclical nature of the steel industry.

About the Company

SIPL was initially incorporated as Sunil Agarwal Infrastructure Pvt Ltd in 2009, later its name was changed to SKA Ispat Private Limited (SIPL) in September 2021. The promoters of SIPL are Mr. Sunil Kumar Agrawal, Mr. Anil Agrawal & Mr. Sushil Kumar Agrawal. The company is engaged in the manufacturing of billets and TMT bars with a total installed capacity of 1,50,000 MTPA each. It has purchased the assets of Jorawar Engineering & Foundry Forge Private Limited.

About the Group

SKA Steel and Power Private Limited (SSPPL) Incorporated in November 2020 by Mr. Sunil Kumar Agrawal, Mr. Anil Agrawal and Mr. Sushil Kumar Agrawal, SKA Steel and Power Private Limited (SSPPL) has acquired a running rolling mill plant from Lingraj Steel & Power Private Limited in February 2021 with an installed capacity of 1,50,000 MTPA. The company then started billet production in July 2022 with an installed capacity of 1,63,044 MTPA for the purpose of backward integration of the TMT plant.

Analytical Approach

Extent of consolidation

Full consolidation

Rationale for consolidation or Parent/Group/Govt. support

ACUITE has considered the consolidated financials of SKA Ispat Private Limited and SKA Steel and Power Private Limited. The consolidation is on account of the common management,

same line of operations and significant operational and financial fungibility.

Key Rating Drivers

Strengths

Experienced management through their association with other group companies

The promoters of the SKA Group, Mr. Anil Kumar Agarwal, Mr. Sunil Kumar Agarwal and Mr. Sushil Kumar Agarwal has over three decades of experience in the construction industry. The promoters have expanded into the steel manufacturing business, as it is the major raw material in the construction industry.

Acuite believes that the extensive experience of the promoters in the construction business and relationship with other contractors shall support the steel manufacturing business in the medium term.

Steady business risk profile coupled with locational advantage

The operating income of the group increased to Rs.996.75 Cr in FY2023 (Prov) as against Rs.596.38 Cr in FY2022, thereby registering an y-o-y growth of ~67 per cent. The group has been able to scale up operations on account of increased average realization and sales volume of TMT bars on the back of rising demand from end user segments. Acuite believes the scale of operation will improve over the medium term backed by rise in sale of value-added steel products such as TMT bars where realizations are higher in comparison to intermediate goods.

The EBITDA margin of the group improved to 3.94 per cent in FY2023 (Prov) as against 1.95 per cent in FY2022 on account of decline in material cost. The group has installed a billet capacity in the mid of FY23, which helped them in cost optimization as these billets were used in manufacturing TMT bars. The margins are relatively lower due to the absence of further backward integration of sponge iron and has to source the same from the open market, leading pressure in the operating margins. Acuite expects the operating margin to be range bound between 3.7-4.0 per cent in the near to medium term on account of semi-integrated nature of operations.

Moreover, the plants are located in Raipur, Chhattisgarh, which has extensive iron ore and coal reserves, thereby SIPL benefits operationally from its strategic location. Close proximity to customers and raw material suppliers will likely lower freight costs. Acuite believes that the close proximity to the steel hub shall support the business risk profile to an extent.

Efficient working capital management

The company has an efficient working capital management marked by improved GCA days of 49 days in FY2023 (Prov) as against 76 days in FY2022. The improvement in GCA days is on the account of improved debtor period to 27 days in FY2023 (Prov) as against 56 days in FY2022 due to efficient collection mechanism. Further, the inventory period stood comfortable at 12 days in FY2023 (Prov) as against 13 days in FY2022.

Acuite believes that the working capital requirement is likely to remain at similar levels in the near to medium term.

Weaknesses

Short operational track record

SKA Ispat Pvt Ltd (SIPL) started manufacturing operations since December 2021 and SKA Steel and Power Private Limited (SSPPL) has started its operations since July 2021. Both the companies have a short operational track record of only 2 years.

Average financial risk profile

The group's financial risk profile is average marked by moderate net worth base, high gearing and comfortable debt protection metrics. The tangible net worth of the group increased to Rs.75.85 Cr as on March 31, 2023 (Prov) from Rs.67.40 Cr as on March 31, 2022, due to accretion of profits to reserves. The flagship company, Sunil Kumar Agarwal LLP holds preference shares in both the companies amounting to Rs.19.00 Cr which is fully convertible after 9 years. Acuite has considered unsecured loans of Rs.46.63 Cr as on March 31, 2023 (Prov), as quasi-equity as the management has undertaken to maintain the amount in the

business over the medium term. Gearing of the group stood high at 2.00 times as on March 31, 2023 (Prov) as against 2.16 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.15 times as on March 31, 2023 (Prov) as against 2.66 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest Coverage Ratio (ICR) at 2.49 times as on March 31, 2023 (Prov) against 1.79 times as on March 31, 2022; and Debt Service Coverage Ratio at 2.49 times as on March 31, 2023 (Prov) as against 1.73 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on March 31, 2023 (Prov) as against 0.03 times as on March 31, 2022.

Acuité believes that going forward the financial risk profile of the group will be sustained backed by steady accruals and no major debt funded capex plans.

Inherent cyclical nature of the steel industry

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 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 (sponge iron, iron ore and coal) as well as realisation from finished goods. The prices and supply of the main raw material, sponge iron, 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 and profitability margins
- Elongation of working capital cycle
- Sustenance of capital structure

All Covenants

None.

Liquidity Position

Adequate

The group's liquidity position is adequate marked by net cash accruals of Rs.23.53 Cr in FY2023 (Prov) as against nil long term debt repayment over the same period. Going forward, the expected cash accruals will be sufficient to meet the debt obligations backed by expected healthy scale of operations. The current ratio stood moderate at 1.20 times as on 31 st March 2023 (Prov) as compared to 1.13 times as on 31 st March, 2022. Further, the fund-based limits remained moderately utilized at ~89 per cent for six months ended June 2023. The cash and bank balances of the group stood at Rs.5.79 Cr in FY2023 (Prov) as compared to Rs.0.36 Cr in FY2022. Moreover, the working capital management of the group is efficient marked by Gross Current Assets (GCA) of 49 days in FY2023 (Prov) as compared to 76 days in FY2022.

Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the group will be 'Stable' over the medium term on account of the experienced management through their association with other group company, sound business 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 efficient working capital management. 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 group's financial risk profile and liquidity position or elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	996.75	596.38
PAT	Rs. Cr.	6.98	1.82
PAT Margin	(%)	0.70	0.31
Total Debt/Tangible Net Worth	Times	2.00	2.16
PBDIT/Interest	Times	2.49	1.79

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>
- 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, 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 :

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
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.27	ACUITE BBB- Stable Assigned
Karnataka Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	23.38	ACUITE BBB- 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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