



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Eloquent Steels Private Limited

March 19, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	65.00	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*	Re-affirmed
Short Term Bank Facilities	25.00	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*	Re-affirmed
Total	90.00		

*Based on an unconditional and irrevocable shortfall undertaking of Shakambhari Ispat & Power Ltd (SIPL).

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of rating assigned to the bank facilities of Eloquent Steels Private Limited (ESPL) continues to derive comfort from its experienced promoters and shortfall cash flow support commitment from the flagship company (SIPL) of the promoter. This undertaking results in an enhancement in the rating of the said instrument to **IVR BBB- (CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook) against the unsupported rating of IVR BB+/Stable (IVR Double B Plus with Stable Outlook)**. Further, the rating also continues to receive comfort from the locational advantage and sourcing of cheaper power and healthy financial risk profile marked by comfortable gearing and debt protection metrics. However, these rating strengths are continues to remain constrained by its nascent stage of operation, susceptibility of profitability to volatility in raw material prices and cyclical in steel Industry.

Key Rating Sensitivities:

Upward Factor

- Improvement in scale of operations and profitability metrics thereby leading to overall improvement in cash accruals and debt protection parameters
- Improvement in capital structure and operating cycle

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Downward factor

- Dip in operating income and/or profitability impacting the debt coverage indicators and subdued industry scenario on a sustained basis
- Deterioration in operating cycle impacting the liquidity
- Deterioration in Credit profile of the Guarantor Company.

List of Key Rating Drivers with detailed description

Key Rating Strengths

- **Experienced promoters**

The current promoter of ESPL, Mr. Deepak Kumar Agarwal, is also the promoter of Shakambari Ispat & Power Ltd., an established TMT Bar, Wire rod and Billet manufacturing company, based out of Kolkata. He has been in the business of iron and steel for more than 25 years. Mr. Agarwal looks after the day-to-day affairs of the company.

- **Short fall cash flow support from the flagship company (SIPL) of the promoter**

The entire bank facilities of ESPL (including term loan, cash credit and non-funded letter of credit) is backed by an unconditional and irrevocable shortfall undertaking stating that any shortfall in debt obligation of ESPL will be met by SIPL. SIPL is the flagship company of the promoter. SIPL is one of the leading manufacture of Iron & Steel products in Eastern India. By virtue of SIPL's standing and resourceful ness of the promoters, ESPL is expected to receive the necessary cash flow support from SIPL, in case of eventuality.

- **Locational advantage and sourcing of cheaper power**

Both the plants of the company are adjacent to each other and are located at Mouza, Village Nakarajoria, Dendua, P.O-Salanpur, District- Burdwan, West Bengal, which is located close to Maithan Hydel Sub-Station of DVC. The power cost of DVC is low in comparison to other power utilities, which is likely to result in low operating cost for ESPL.

- **Healthy Financial risk profile marked by comfortable gearing and healthy debt protection metrics**

Its moderate net worth level, comfortable gearing and healthy debt protection metrics marks the financial risk profile of the company. The long-term debt equity ratio and the overall

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gearing ratio were comfortable at 0.73x and 0.86x respectively as on March 31, 2019. The debt protection metrics stands comfortable marked by the interest coverage ratio of 4.88x and DSCR of 5.06x respectively as on March 31, 2019. Going forward, Infomerics expects the financial risk profile to remain healthy in the near term.

Key Weaknesses

- **Nascent stage of operation**

The company commenced its operation from November 2018 and hence, it is at a very nascent stage of operation.

- **Susceptibility of operating margin to volatility in the prices of raw materials and finished goods**

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw materials required for manufacturing billets are coal, iron ore and sponge iron. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

- **Intense Competition**

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including ESPL.

- **Cyclicality in Steel Industry**

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on company's performance in view of ESPL's direct linkage to the fortunes of Steel industry. However, the outlook for the steel industry in the short to medium term appears to be good as the steel prices have hardened in the recent past, coupled with robust demand in the domestic market.



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Analytical Approach: The rating to the company is based on the support of an unconditional and irrevocable shortfall undertaking of SIPL to meet the debt obligation of ESPL.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Structure Debt Transaction (Non-securitisation Transaction)

Liquidity: Adequate

The company has started its commercial operation from November, 2018 and hence, its operation is at a nascent stage. However, the liquidity of the company is expected to remain adequate on the back of expected sufficient cushion in accruals vis-à-vis repayment obligations. The GCA is expected to remain comfortable in the range of Rs.11-13 crore as compared to repayment obligation in the range of Rs.0.40-4 crore during FY20-FY22. Further, the company's bank limits are utilized to the extent of ~68% in the past 12 months ended January 2020 indicating a satisfactory liquidity buffer. Moreover, Infomerics also factors in the presence and support of its group company, SIPL in the form of a shortfall undertaking.

About the Company

Eloquent Steels Pvt. Ltd. (ESPL), was incorporated in 2012 and the company was engaged in trading of goods. However, in November 2017, the company was taken over by Mr Deepak Agarwal. ESPL acquired existing plants in Q3FY18, through auction from Official Liquidator of Honourable High Court, Kolkata, and also through bidding in auction notice from bank. Both the plants consisted of ferro-alloy manufacturing facilities as well as steel melting shop. The production has started in November, 2018. The plant capacity is 43645 MTPA of Silico Manganese, as well as 400 Tonnes per day of billets is being manufactured.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	1.06	72.34
EBITDA	0.01	1.78
PAT	0.01	1.11

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For the year ended* / As On	31-03-2018	31-03-2019
Total Debt	39.70	39.88
Tangible Net worth	NM	46.11
EBITDA Margin (%)	0.63	2.46
PAT Margin (%)	0.99	1.33
Overall Gearing Ratio (x)	NM	0.86

*Classification as per Infomerics' standards.

#Operations have started in November, 2018.

@ NM- Not Meaningful

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	33.50	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*	-	-
2.	Term Loan	Long Term	31.50	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*	-	-
3.	Letter of Credit	Short Term	10.00	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*	-	-
4.	Bank Guarantee	Short Term	15.00	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*	-	-

*Based on an unconditional and irrevocable shortfall undertaking of Shakambhari Ispat & Power Ltd (SIPL).



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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	33.50	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*
Term Loan	-	-	Mar-2026	31.50	IVR BBB-(CE)/Stable (IVR Triple B Minus [Credit Enhancement] with Stable Outlook)*

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Letter of Credit	-	-	-	10.00	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*
Bank Guarantee	-	-	-	15.00	IVR A3(CE) (IVR Single A Three [Credit Enhancement])*

*Based on an unconditional and irrevocable shortfall undertaking of Shakambhari Ispat & Power Ltd (SIPL).