

Press Release

Ganpati Sponge Iron Private Limited

January 21, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Fund Based Facility - Cash Credit	13.50 (including sub-limit Inland Letter of Credit of Rs. 2.50 crore)	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)
2	Long Term Fund Based Facility - Term Loan	1.50	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)
	Total	15.00	

Details of Facilities are in Annexure I

Detailed Rationale

The rating derives strength from Experienced promoters and management, Significant growth in scale of operations and profitability, Favourable Capex to substantially reduce power costs, Strategic location, Integrated operations of the group and Improving and adequate gearing and debt coverage indicators. However, these strengths are, partially offset by Moderate profitability margins in spite of reasonable operating profit, High competition and cyclicality in the steel industry and Lack of adequate backward integration for vis-à-vis volatility in prices.

Key Rating Sensitivities

Upward revision factors:

Downward revision factors:

Sustained & Significant improvement in revenue & profitability margins while maintaining the debt protection parameters would call for a positive rating action	Any debt funded capex and/or decline in profitability margins resulting in deterioration of overall gearing and debt coverage indicators would call for a negative rating action
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List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters and management

Mr. Brijlal Goyal has been in the plastic business since 1992 and in the steel industry since 2006. The second generation entrepreneurs, Mr. Manoj Kumar Goyal and Mr. Suresh Kumar Goyal (sons of Mr. Brijlal Goyal) comprise the Board of Directors of the company. Both the directors have vast experience of around two decades in the steel and allied industry. Further, the key managerial personnel of the company are also well-qualified and experienced.

Significant growth in scale of operations and profitability

The group witnessed a healthy growth in operation, growing at a CAGR of 40.06% over the last three years. Total operating income of the group increased by ~74.87% from Rs. 323.30 crore in FY18 to Rs. 565.38 crore in FY19 on account of increase in scale of operations due to capacity additions in FY19, on the back of higher utilisation and increased demand for steel in the domestic market. The revenue growth is also attributed to increased realisation. The EBITDA Margin of the group was ~3.14% in FY17 which increased to ~6.46% crore in FY19 (~43.43% CAGR) due to economies of scale.

Favourable Capex to substantially reduce power costs

Sambhv Sponge had installed 100 MT kiln in December 2018, whereby enhancing its capacities to 105000 MTPA. In addition the company has also installed a captive power plant (Waste Heat Recovery Boilers (WHRB)) of 15 MW (6MW for WHRB and 9MW for fuel based power consumption as well as a billet manufacturing facility of 500 MT per day. The waste heat recovery & fuel based plant will ensure significant savings in electricity charges and hence improve the profitability of the company going forward as the power

requirement will be compensated partially from the power generated from the heat furnace for production of billets, which will get converted to electricity.

Strategic location

The manufacturing facilities of the group are strategically located in Raipur's industrial area, (capital of Chhattisgarh) which is in close proximity to various steel plants and various producers/dealers of its main raw materials (iron ore/coal). Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw material and end market for its sponge iron results in controlled transportation costs. The group is leveraging its locational advantage to sell its products across the country.

Integrated operations of the group

SSPPL supplies sponge iron to both SPIPL and GSIPL. Since SSPPL has a sponge iron manufacturing capacity of 88,000 MTPA of sponge iron and rolling mill 2,12,000 (after expansion) MTPA. SPIPL has a billet manufacturing capacity of 72,000 MTPA. Hence the raw material requirement of SPIPL has largely been met with the sponge iron supplied by SSPPL. GSIPL has a billet manufacturing capacity of 75,000 MTPA and hence its own raw material requirement of sponge iron is met largely through SSPPL. Hence SSPPL largely takes care of the raw material requirement (Sponge Iron) of these two companies. Together all three collectively form an integrated steel manufacturing unit.

Improving and adequate gearing and debt coverage indicators

The overall gearing and other debt coverage indicators of the group have significantly improved over the last three years. The overall gearing ratio improved from 1.21x as on March 31, 2017 to 0.65x as on March 31, 2019. The long term debt to equity ratio was comfortable at 0.35x as on March 31, 2019. The interest coverage ratio stood at 4.05x in FY19, which has improved from 2.17x in FY18. Total debt to GCA has improved over the last three years and remained comfortable at 3.72x in FY19. Other debt coverage indicators were also comfortable as on March 31, 2019 indicating comfortable debt metrics on the consolidated level.

Key Rating Weaknesses

Moderate profitability margins in spite of reasonable operating profit

The profitability margins of the group are moderate. The EBITDA margin of the company has been in the range of 3.0%-6.5%. However, the PBT and PAT margins of companies have improved significantly over the last three years (PAT margin improved from 0.64% in FY18 to 2.66% in FY19) due to economies of scale coupled with control over interest costs. However, the margins continue to remain moderate.

High competition and cyclicality in the steel industry

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, owing to relatively low entry barriers, which directly expose their cash flows and profitability to volatility of the steel industry. The Brijdham group mainly operates in Chhattisgarh, which is quite known in the domestic steel & ancillary segment. The companies face stiff competition not only from the established players, but also from the unorganised sector players as there is a low level of product differentiation. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices.

Lack of adequate backward integration vis-à-vis volatility in prices

Although GSIPL and SPIPL have SSPPL as their backward integration unit, SSPPL does not have a captive iron ore mine. Iron ore pellets are procured from nearby pellet plants at competitive rates. However, the company has also started procuring iron ore lump from NMDC lately, the mines of which are also located very close to the company's factory premises. For coal, SSPPL has a linkage with South Eastern Coalfields Limited for 60,000 MTPA. The price of iron ore/pellet and coal are volatile in nature and the same exposes the company to input price fluctuation risk for its entire requirement.

Analytical Approach: Consolidated Approach

For arriving at the rating, Infomerics has combined the business and financial risk profiles of 3 companies Ganpati Sponge Iron Private Limited (GSIPL), S. Pyarelal Ispat Private Limited (SPIPL), Sambhv Sponge Power Pvt Ltd (SSPPL) as they are in the same lines of business (As backward or forward integration), under a common management, and have financial linkages & legal linkages by way of corporate guarantee. All these companies are collectively referred as the Brijdham group.

(GSIPL & SPIPL had given the unconditional & unrecoverable corporate guarantee to SSPPL)

Applicable Criteria

Rating methodology for manufacturing sector companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity

The group has been earning a comfortable level of gross cash accruals (GCA) for the last few years and the same is expected to increase further with increase in scale of operation. The overall gearing ratio and interest coverage ratio are comfortable at 0.65x and 4.05x respectively as on account closing day of FY19. The overall liquidity position of the three companies on a consolidated basis seems to be **Adequate**.

About the Group

Brijdham Group started its journey in plastic industries with its manufacturing unit, Brijdham plastic in the year of 1992, Santoshi Nagar, Boriya Road, Raipur (C.G). Grinding of plastic scraps was the main vertical of the company at that time. A year later, M/S Goyal Plastics came into existence to manufacture plastic tubes and bags. The group was solely involved in the plastic business till 2004. Subsequently, the group ventured in steel by acquiring Ganpati Sponge Iron Pvt. Ltd. in November 2004. The businesses (various group companies) since then have been managed by the second generation (Mr. Suresh Goyal, Mr. Manoj Kumar Goyal, Mr. Ashish Goyal and Mr. Vikas Goyal: - sons of Mr. Brijlal Goyal of the Goyal family. The group companies operating under Brijdham Group are Ganpati Sponge Iron Private Limited (GSIPL), S. Pyarelal Ispat Private Limited (SPIPL), Sambhv Sponge Power Private Limited.

About the Company

The company, Ganpati Sponge Iron Private Limited (GSIPL), is involved in the manufacturing of mild steel (MS) billets and re-rolled products. The manufacturing facility of GSIPL, spread over an area of 4 acres, is strategically located in central India (near Raipur). The company has the leverage of selling its products across different geographies with easy connectivity via road and rail. Capex of ~Rs.8.50 crore was undertaken by the company from FY17 to FY19 to increase the capacity of billet manufacturing from 50,000 MT p.a. to 75,000 MT p.a. At present, Mr. Brijlal Goyal, Vikas Kumar Goyal and Mr. Suresh Kumar Goyal comprise the Board of Directors of the company.

Financials (Consolidated)

(Rs. crores)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	323.30	565.38
EBITDA	12.04	36.52
PAT	2.06	15.07
Total Debt	57.38	86.09
Tangible Networth	45.63	65.70
EBITDA Margin (%)	3.72	6.46
PAT Margin (%)	0.64	2.66
Overall Gearing Ratio (x)	0.90	0.65

*Classification as per Infomerics' standards

Financial (Standalone)

(Rs. crores)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	145.18	272.91
EBITDA	5.17	9.24
PAT	1.04	4.51
Total Debt	20.40	21.40
Tangible Networth	15.02	19.54
EBITDA Margin (%)	3.56	3.39
PAT Margin (%)	0.72	1.65
Overall Gearing Ratio (x)	1.02	0.99

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount sanctioned/outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Long Term Fund Based Facility - Cash Credit	Long Term	13.50 (including sub-limit Inland Letter of Credit of Rs. 2.50 crore)	IVR BBB-/ Stable outlook	--	--	--
2	Long Term Fund Based Facility - Term Loan	Long Term	1.50	IVR BBB-/ Stable outlook	--	--	--

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	--	6 month MCLR + 1.10% p.a. (presently 9.45% p.a.)	--	13.50	IVR BBB- /Stable Outlook
Term Loan	--	6 month MCLR + 1.10% p.a. (presently 9.45% p.a.)	April 2022	1.50	IVR BBB- / Stable outlook