Press Release

Swati Concast & Power Private Limited

April 22, 2020

Ratings

Instrument / Facility	**Amount (Rs. Crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities – Cash Credit	11.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Short Term Bank Facilities – Letter of Credit/Bank Guarantee	9.00	IVR A3 (IVR A Three)	Assigned
Total	**20.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Swati Concast & Power Private Limited (SCPPL) derives comfort from its experienced promoters, locational advantage, stable operating performance with comfortable gearing and debt protection metrics. The ratings also considers its prudent working capital management. However, these rating strengths are partially offset by moderate scale of its operation with thin and range bound profit margins, susceptibility of operating margins to volatility in input costs, exposure to foreign currency fluctuation risk and cyclicality in steel industry.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and improvement in debt protection metrics with TOL/TNW remained below 2x and interest coverage ratio remained over 2.5x
- Effective working capital management with improvement in operating cycle and liquidity

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in the capital structure with overall gearing to above 1.5x and interest coverage to below 2x

- Elongation in the operating cycle impacting the liquidity and average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

SCPPL has been promoted by the Jharkhand based one Kejriwal family. The promoters have been engaged with the steel industry over past two decades. Over the years, they have gained good business insights and have established healthy relationships with customers and suppliers. The members of the Kejriwal family – Mr. Ayush Kejriwal and Mrs. Nisha Kejriwal who are also the Directors of the company and have considerable experience in the sector, currently look after the operations of the company. They are supported by a team of experienced and qualified professionals in managing the affairs of the company.

Locational advantage

The manufacturing facilities of SCPPL is in Giridih, Jharkahnd which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron, iron scrap, billets, TMT bars and other steel products. Further, sourcing of iron ore and coal from nearby coal mines is not an issue. Presence in steel belt reduces the business risk to an extent.

Stable operating performance over the years albeit range bound margins

The operating performance of the company largely remained stable over the past years and the total operating income of the company registered a CAGR of ~3% during FY17-FY19 with a y-o-y growth of ~5% in FY19 over FY18. The growth is driven by increase in volume sales as well as sales realisation of pig iron and runner which are the key products of the company. However, EBITDA margin of the company have remained low and range bound at ~ 3%-3.50% during the past three financial years. During 9MFY20, the total operating income of the company stood at Rs.90.87 crore with EBITDA of Rs.3.33 crore and PBT of Rs.0.75 crore.

Comfortable gearing and debt protection metrics

The capital structure of the company remained comfortable with long term debt equity ratio of 0.13x and overall gearing of 0.55x as on March 31, 2019 as against a long-term debt equity ratio of 0.08x and overall gearing of 0.59x as on March 31, 2018. Further, total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 1.59x as on March

31, 2019 (1.44x as on March 31, 2018). With low reliance on external debt, the debt protection parameters of the company remained comfortable marked by the interest coverage ratio at 2.95x in FY19 (2.36x in FY18) and Total debt to GCA at 3.96x in FY19 (4.97x in FY18). Infomerics expects that the financial risk profile of the company will continue to remain satisfactory in the near to medium term.

Prudent working capital management

The company exhibited prudent management of its working capital marked by its satisfactory operating cycle of 35-50 days during FY17-FY19. Moreover, utilisation in its fund based working capital limits also remained satisfactory at ~71% during the past 12 months ending January, 2020 indicating an adequate liquidity buffer.

Key Rating Weaknesses

Moderate scale of operations with thin profitability

SCPPL is relatively moderate sized player in the highly fragmented steel related business with total operating income of Rs.140.74 crore and PAT of Rs.0.72 crores in FY19. The moderate scale of operations restricts the diversification of product and limits the benefits arising out of economies of scale. Further, the profit margins of the company also remained thin and range-bound over the year.

Susceptibility of the operating margins to volatility in input costs

The key raw materials of the company – iron ore and coke, had shown a volatile trend over the years. Any adverse movement in the prices of raw material can have an adverse impact on the operating margins of the company. However, the same is partially passed on to the customers.

Foreign Currency fluctuation risk

SCPPL has around 2-3% of its revenue coming from overseas. Further, the company is largely dependent on imports of coal and coke. Consequently, the company remains exposed to the fluctuations in forex rates.

Cyclicality in the steel industry

The steel industry is characterised by its inherent cyclicality. The industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. This is likely to keep the profitability and cash flows of all the players in the industry, including SCPPL, volatile going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity profile of SCPPL is expected to remain adequate with its expected satisfactory cash accruals vis- a- vis its minimal debt repayment obligations in FY21 and FY22. The company has cash and cash equivalent balance of Rs.4 crore as on March 31, 2020. Further, the average cash credit utilisation of the company remained comfortable at ~71% during the past 12 months ended March, 2020 indicating a sufficient liquidity cushion. Moreover, the company has sufficient gearing headroom due to its comfortable capital structure.

About the Company

Incorporated in May, 1993 and acquired by Jharkhand based Kejriwal family in 2003, Swati Concast and Power Private Limited (SCPPL, Erstwhile Chandrabhan Vanijya Pvt Ltd) is engaged in manufacturing and sale of sinter and pig iron. The company has its manufacturing facility at Giridih, Kharkhand with an installed capacity of 1,36,111 MTPA for the sinter plant and 42,446 MTPA for pig iron.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	133.52	140.74
EBITDA	4.66	4.87
PAT	0.49	0.72
Total Debt	12.78	12.35
Tangible Net worth	21.85	22.57
EBITDA Margin (%)	3.49	3.46
PAT Margin (%)	0.37	0.51
Overall Gearing Ratio (x)	0.59	0.55

*As per Infomerics' Standard

Status of non-cooperation with previous CRA:

Brickwork Ratings has moved the rating of SCPPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the last Press Release dated February 03, 2020.

India Ratings has moved the rating of SCPPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the last Press Release dated May 14, 2019.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	**Name of Instrument/Facilities**	**Current Rating (Year 2020-21)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Cash Credit	Long Term	11.00	IVR BBB-/ Stable Outlook	-	-	-
2.	Bank Guarantee /Letter of Credit	Short Term	9.00	IVR A3	-	-	-

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Press Release

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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
Long Term Bank Facilities – Cash Credit	-	-	-	11.00	IVR BBB- / Stable Outlook
Short Term Bank Facilities – Letter of Credit/Bank Guarantee	-	-	-	9.00	IVR A3