



Press Release

Shakambhari Overseas Trades Private Limited

April 11, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities- Cash Credit	7.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities- Letter of Credit	4.00	IVR A3 (IVR Single A Three)	Assigned
Short Term Bank Facilities- Proposed Non Fund Based	4.00	IVR A3 (IVR Single A Three)	Assigned
Total	15.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Shakambhari Overseas Trades Private Limited (SOTPL) favorably factors in long track record of operation of the company under experienced promoters, gradual improvement in capacity utilisation, healthy financial risk profile marked by healthy debt protection metrics and its prudent working capital management. However, these rating strengths are partially offset by susceptibility of its operating margin to volatility in raw material prices, thin profit margins and cyclicity in the steel industry.

Key Rating Sensitivities

Upward Rating Factor

- 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 debt protection metrics with TOL/TNW remained below 1.5x and interest coverage to remain over 5x



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Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage parameters on a sustained basis
- Moderation in the capital structure and /or debt protection metrics
- Deterioration in working capital management impacting the liquidity

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced management and long track record of operation

The promoters have around two decades of experience in manufacturing of iron and steel products. The company is being managed by Agarwal family with Mr. Vinay Kumar Agarwal at the helm of affairs who is well supported by experienced professionals. In addition to SOTPL, Mr. Vinay Kumar Agarwal is also managing the flagship company of the group i.e. Gagan Ferrotech Limited (rated: IVR A/Stable/A1) engaged in manufacturing of billet and TMT Bars. The long track record and vast experience of the promoters has helped the company to establish a healthy relationship with the dealers and the suppliers.

Gradual improvement in capacity utilisation

The capacity utilization of SOTPL has improved during the last 2 years with utilisation in the MS Ingot manufacturing unit improved from ~56% in FY 17 to ~79 % in FY19. With improvement in capacity utilisation and sales realisation the scale of operation of the company also witnessed a y-o-y growth of ~37% in FY19 and stood at Rs.137.47 crore in FY19.

Healthy Financial risk profile marked by negligible long term debt and healthy debt protection metrics

The financial risk profile of SOTPL is marked by its moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth stood at Rs.25.13 crore as on March 31, 2019. The long term debt equity ratio and the overall gearing ratio were comfortable at 0.07x and 0.19x



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respectively as on March 31, 2019 (0.46x and 0.54x respectively as on March 31, 2018). Further, total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 0.52x as on March 31, 2019 (1.24x as on March 31, 2018). Driven by lower dependence on outside borrowings and consequent low interest cost burden the debt protection metrics is marked comfortable by the interest coverage ratio and Long-term debt to GCA of 8.52x in FY 19 (8.62x in FY18) and 0.52x in FY 19 (7.38x in FY18) respectively. The cash accruals also witnessed improvement from Rs.1.28 crore in FY17 to Rs.3.18 crore in FY19. Going forward, Infomerics expects the financial risk profile to remain healthy in the near term in view of its comfortable capital structure.

Prudent working capital management

The working capital cycle is prudent on account of faster realisation of debtors and efficient inventory management by the company. The average collection period stood at 41 days during the period under review FY19 as against 92 days in FY18. The improvement was on account of higher focus on receivable management by the company. Speedy realization from debtors reduces dependence on working capital borrowings. Further, inventory is generally maintained for 10-25 days. The prudent working capital management is further reflected from lower reliance on external borrowings which stood at ~28 % during the last 12 months ended Jan' 2020.

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices

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 ingots are coal, iron ore and sponge iron, scrap while ingots are the main raw material for producing TMT Bars. Since, the raw material is the major cost driver (constituting about 65-70 % of total cost of sales in FY19) and raw material prices are volatile in nature, the



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profitability of the company is susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Thin profit margins

Raw materials constitutes ~70% of the company's raw material requirement. With the prices of the raw material constantly volatile, company's margins are largely affected by it. The operating margins stood thin in the range of 1.5%-1.7% during FY17-19. However, during 10MFY20 the operating margin witnessed steady improvement and stood at 3.44 % driven by improvement in realisation and better cost control. Driven by low operating margin, the PAT margin of the company also remained low during the aforesaid period and witnessed an improvement in 10MFY20. Going forward, improvement in profitability metrics will remain a key rating sensitivity.

Cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including SOTPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)



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Liquidity: Adequate

The company has adequate liquidity driven by net cash accruals of Rs.3.18 crore in FY19 against nil repayment obligations. The liquidity of the company is expected to remain adequate on the back of expected sufficient cushion in accruals vis-à-vis nil repayment obligations. Further, the company's bank limits are utilized to the extent of ~28 % in the past 12 months ended January 2020 indicating a satisfactory liquidity buffer.

About the Company

Incorporated in 1996, Shakambhari Overseas Trades Private Limited is engaged in manufacturing of MS Ingots and Industrial Gases (Oxygen and Nitrogen gases). The manufacturing unit of the company is located in Durgapur, West Bengal and is operating with an installed capacity of 46200 MTPA for MS Ingots and 3456000 Cubic Meters/annum for industrial gases. The main promoters of the Company are Mr. Vinay Kumar Agarwal and Mrs. Suman Agarwal. The company is part of the Gagan group with flagship Company being Gagan Ferrotech Limited (Rated: IVR A/Stable/A1).

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	100.19	137.47
EBITDA	1.61	2.11
PAT	0.53	1.93
Total Debt	12.47	4.84
Tangible Net worth	23.20	25.13
EBITDA Margin (%)	1.61	1.54
PAT Margin (%)	0.53	1.39
Overall Gearing Ratio (x)	0.54	0.19

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of



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SOTPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 19, 2020.

Any other information: Nil

Rating History for last three years:

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 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	7.00	IVR BBB- /Stable			-
2.	Letter of Credit	Short Term	4.00	IVR A3			
3.	Proposed Non Fund Based	Short Term	4.00	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. 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
Long Term Bank Facilities – Cash Credit	-	-	-	7.00	IVR BBB-/Stable
Short Term Bank Facilities-Letter of Credit	-	-	-	4.00	IVR A3
Short Term Bank Facilities-Proposed Non Fund Based	-	-	-	4.00	IVR A3