



## Press Release

### Suncity Sheets Private Limited (SSPL)

September 23, 2020

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	133.80 (enhanced from INR29.00 Crore)	IVR A-/Stable Outlook (IVR A minus with Stable Outlook)	Re-affirmed
2.	Long Term Fund Based Facility – Term Loans	56.33 (enhanced from INR1.83 Crore)	IVR A-/Stable Outlook (IVR A minus with Stable Outlook)	Re-affirmed
3.	Short Term Non Fund Based Facility– Letter of Credit	108.00 (enhanced from INR33.00 Crore)	IVR A2+ (IVR Single A Two Plus)	Re-affirmed
4.	Short Term Non Fund Based Facility– Forward Contract	0.50	IVR A2+ (IVR Single A Two Plus)	Assigned
	<b>Total</b>	<b>298.63 (Two Hundred Ninety Eight Crore and Sixty Three Lakh)</b>		

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The rating continues to derives strength from experienced promoters, diversified product portfolio, incremental benefits from the recently completed CAPEX, improving capacity utilisation, healthy growth in operation, comfortable gearing and debt coverage indicators, established relationships with clients and suppliers, and resourceful promoters. However, the rating is constrained by moderate profitability margins, exposure to foreign exchange fluctuations and high competition and cyclical in the steel industry.

#### Key Rating Sensitivities:

##### Upward rating factor(s):

- Substantial improvement in revenue and/or profitability leading to sustained improvement in debt protection metrics may lead to a positive rating action



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### Downward rating factor(s)

- Any decline in the revenue and/or profitability leading to sustained decline in the debt protection metrics may lead to negative rating action.

### Key Rating Drivers with detailed description

#### Key Rating Strengths

##### **Experienced promoters**

Suncity group was promoted by Mr. Ram Avtar Agarwal, a first generation entrepreneur. He has over four decades of industry experience. His sons, Mr. Mahaveer Agarwal, Mr. Mukesh Agrawal and Mr. Harish Agarwal are Directors in the company. All of them have been in the steel manufacturing business for about 25 years.

##### **Diversified product portfolio**

The group has a diversified portfolio of stainless steel products comprising SS sheets, SS pipes, SS tubes, SS coils, SS circles, SS pata patti, and stainless steel utensils. The products of the company find use in a variety of applications like power plants, oil and gas industries, heat exchangers, automobiles and ancillaries, kitchenware, railway coaches etc. This enables the company to considerably insulate itself from any sectorial volatility.

##### **Incremental benefits from the recently completed CAPEX**

The group have done CAPEX in FY20 amounting to INR62.00 Crore (COD in February 2020), by conducting green field expansion of Stainless Steel Pipes and Tubes plant in Mundra (Gujarat). This plant will be basically manufacturing the industrial pipes of 300MM and tubes. With this, the company is able to expand its geographical boundaries within the Southern parts of India. The logistic cost of the company is getting reduced, by supplying the products from the Mundra plant (Being proximity to Mundra Port) to the South market as many economical vehicles are running from Mundra port to South. The company enjoys goodwill in the South Market and has the renowned brand presence PAN India. The company's cost of importing the raw materials will also get reduced, as one of the major raw material supplier from Indonesia have established it HR and CR plant in Mundra in the month of November, 2019



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and therefore procurement of raw material will become hassle-free and less expensive which in all will save the raw material logistic cost

### **Improving capacity utilization**

The capacity utilization for the manufacturing facility of SSPL and other companies got improved in the last year leading to increase in scale of operation. In FY20 (February, 2020) SSPL did green field expansion of manufacturing unit dealing with SS pipes and tubes in Mundra (Gujarat). The installed capacity of SS pipes and tubes plunges from 10,080 MT p.a. to 16,000 MT p.a. and the installed capacity of CRSS coils/sheets/circles also got increased from FY19 onwards to 45,000 MT p.a. after commissioning of additional rolling mill in SSPL, the commercial production of the same started from the April, 2019. The overall volume produced has increased from 49,867 MT P.A. in FY19 to 60,674 MT p.a.

### **Healthy growth in operation**

The group witnessed a healthy growth in operation with increase of about ~ 27% in turnover from INR607.00 Crore in FY19 to INR775.20 Crore in FY19 due to increase in volume coupled with increased trading sales.

### **Comfortable Gearing and debt coverage indicators**

The overall gearing ratio of the group continue to remain comfortable at 0.66x in FY20 and 0.55x in FY19, the increase in gearing ratio is due to increase in the amount of debt taken by the group for the purpose of CAPEX. The long term debt to equity ratio was also comfortable at 0.25x in FY20 (FY19: 0.14x). The interest coverage ratio stood at 3.23x in FY20 (FY19: 5.20x), which tumbles due to increase in borrowing amount and range bound EBITDA. Total debt to GCA was comfortable at 1.97x in FY20 and 1.11x in FY19. Other debt coverage indicators have also been comfortable as on the last three years financial statements.

### **Established relationships with clients and suppliers**

The group has established relationship with its clients. The top five clients of SSPL contribute to around 50% of the total FY19 sales indicating a moderately diversified client base. The major raw material for the company is hot rolled stainless steel (HRSS) coil, which is usually imported. The company has long term business relation and supply arrangements with its



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vendors for procuring the same. The company's clientele base is also improving with its recent presence in the South market.

### **Resourceful promoters**

Promoters have regularly supported the funding requirement of the business and any type of CAPEX to be carried out in future, in the form of unsecured loan and Equity. In FY20, the promoters have infused INR43.84 Crore as unsecured loan for the purpose of CAPEX and its working capital requirement. Total unsecured loans infused till date is INR67.10 Crore. These unsecured loans are subordinated with the bank

### **Key Rating Weaknesses**

#### **Moderate profitability margins**

The profitability margins of the company are moderate. The EBITDA margin of the company has been in the range of 6.00%-8.00% and the PAT margin is in the range of 3.00%-4.50% during the last three years ended FY20 (Provisional).

#### **Exposure to foreign exchange fluctuations**

As the company imports a significant proportion of its raw material requirements and exports account within the range of 3.00%-6.00% of the total revenue in last three years, the company is exposed to foreign currency fluctuation risk. The company generally hedges around 70.00%-75.00% of its net exposure. In the light of the depreciation in the rupee over the last four years, there appears to be some risk in the foreseeable future. However, this risk is majorly mitigated by hedging to the extent of 75%.

#### **High competition and cyclical in the steel industry**

The company faces stiff competition from globally established steel players. As significant amount of raw material is imported, the company is exposed to risks such as global steel industry performance, local regulations/duties, trade wars, etc. However, the company has been able to establish a strong presence with the quality of its products. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to



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excess capacity leading to a downturn in the prices. But the outlook for the steel industry in the short to medium term appears to be positive.

### **Analytical Approach &Applicable Criteria:**

- Consolidated – All the group companies viz. Suncity Strips and Tubes Private Limited (SSTPL), Suncity Alloys Private Limited (SAPL), Suncity Metals Private limited (SMPL) and Suncity Strips Private Limited (SStriPL) got amalgamated with Suncity Sheets Private Limited (SSPL) in FY19-20 (Appointed date April 01, 2019).
- Rating methodology for manufacturing companies
- Financial ratios and Interpretation (Non-Financial Sector)

### **Liquidity: Adequate**

The group has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operation. The company maintains sufficient cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained on the lower side (~60%) during the 12 months ended June 31, 2019. The projected average ICR is 3.29x indicate comfortable liquidity position of the company in meeting its debt obligations. Current ratio also remains comfortable at 1.66 in FY20 (Provisional)

### **About the Company:**

Suncity Sheets Private Limited (SSPL) & other four group companies was promoted by Mr. Ram Avtar Agarwal, a first generation entrepreneur. The company commenced operation of manufacturing stainless steel products near Jodhpur in 1992. The various products manufactured by the company include stainless steel sheets, SS pipes, SS tubes, SS coils, SS circles and stainless steel utensils. The products of the company find use in a variety of applications like power plants, oil and gas industries, heat exchangers, kitchenware etc. At present, the company's products are used domestically as well as exported to countries like Brazil, Turkey and few South East Asian countries. The manufacturing plants of SSPL are located at Boranada (Rajasthan) and Mundra (Gujarat) with the production capacity of 90,600 MT p.a. and 30,000 MT p.a. respectively.



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### Financials: Consolidated

For the year ended/ As On*	31-03-2019 (Audited)	(INR Crore) 31-03-2020 (Provisional)
Total Operating Income	607.00	775.20
EBITDA	33.24	46.39
PAT	12.19	19.84
Total Debt	80.95	142.68
Tangible Net-worth	124.60	150.50
EBITDA Margin (%)	5.48	5.98
PAT Margin (%)	2.96	2.71
Overall Gearing Ratio (x)	0.55	0.66

Classification as per Infomerics standards

**Status of non-cooperation with previous CRA: N.A**  
**Any other information: N.A.**

### Rating History for last three years:

Sl. No .	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (July 30, 2020)	Date(s) & Rating(s) assigned in 2019- 20 (June 20, 2019)	Date(s) & Rating(s) assigned in 2018- 19
1.	Long Term Fund Based Facility – Cash Credit	Long Term	133.80	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	--
2.	Long Term Fund Based Facility – Term Loans*	Long Term	56.33	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	--
3.	Short Term Non Fund Based Facility – Letter of Credit	Short Term	108.00	IVR A2+	IVR A2+	IVR A2+	--
3.	Short Term Non Fund Based Facility – Forward Contract	Short Term	0.50	IVR A2+	--	--	--
<b>Total</b>							

\*Outstanding as September 15, 2020

**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](http://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 (INR Crore)	Rating Assigned/Outlook
Long Term Fund Based Facility – Cash Credit	NA	NA	NA	133.80	IVR A-/Stable
Long Term Fund Based Facility – Term Loans	NA	NA	Up to September 2027	56.33	IVR A-/Stable
Short Term Non Fund Facility – Letter of Credit	NA	NA	NA	108.00	IVR A2+
Short Term Non Fund Facility – Forward Contract	NA	NA	NA	0.50	IVR A2+