

Press Release

Super Iron Foundry Pvt Ltd (SIFPL)

March 16, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facilities	23.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)
2	Short Term Bank Facilities	18.80	IVR A3 (IVR A Three)
3	Proposed Long Term Bank Facilities	36.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)
4	Proposed Short Term Bank Facilities	36.30	IVR A3 (IVR A Three)
	Total	114.10	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Super Iron Foundry Pvt Ltd (SIFPL) derives comfort from its established track record of operations and experienced promoters, imposition of anti-dumping duty by key markets on import from competitive country and its healthy order book position indicating near term revenue visibility. The ratings also factors in healthy growth in its revenue with stable profitability parameters and comfortable leverage indicators coupled with moderate debt protection metrics. However, the rating strengths are partially offset by susceptibility of its profitability to volatility in raw material prices, strong competitive pressure from other established domestic players, working capital intensive nature of business and risk associated with On-going project.

Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to an improvement in liquidity on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Improvement in the operating cycle

Downward factor:

- Any deterioration in scale of operation and/or moderation in profitability affecting the liquidity on a sustained basis
- Further elongation of operating cycle

- Moderation in the capital structure with deterioration in overall gearing to more than 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

SIFPL is looked after by Mr. Abhishek Saklecha and his younger brother Mr. Akhilesh Saklecha. Both the brothers have around 15 years of business experience and looks after the day to day operation along with the support from a team of experienced professional.

- **Imposition of anti-dumping by key market on import from competitive country**

SIFPL gains from imposition of anti-dumping duty on Chinese foundry products by Europe. This apart, China has also launched a “Clean Environment Policy” due to which majority of the foundries are being shut by the government on account of pollution norms. Such changes in regulatory framework and global demand and supply position have helped SIFPL to tap new orders

- **Healthy order book position indicating near term revenue visibility**

SIFPL has a strong order book position of Rs.112.84 crore as on December 31, 2019 to be completed by June 2020. This gives a satisfactory near term revenue visibility.

- **Healthy growth in revenue with stable profitability parameters**

The operating income of the company increased from Rs.39.36 crore in FY18 to Rs.84.82 crore in FY19 mainly driven by an increase in sales volumes. However, the EBITDA margin moderated from 8.74% in FY18 to 7.56% in FY19 mainly due to higher overhead expenses and compromise in margin by the company to attain higher sales volume. With decline in EBITDA, PAT margin also declined in FY19 to 1.27% from 1.65% in FY18. The company has achieved operating income of Rs.59.57 crore in 9MFY20, registering a growth of 5.15% y-o-y with EBITDA margin of 8.23% and PBT margin of 2.13%.

- **Comfortable leverage indicators coupled with moderate debt protection metrics**

The capital structure of the company remained comfortable as on March 31, 2019. Overall gearing of SIFPL improved from 0.92x as on March 31, 2018 to 0.86x as on March 31, 2019 with accretion of profit and gradual repayment of term debt. Moreover, Total indebtedness of the company as reflected by TOL/TNW remained moderate at 1.04x as on March 31, 2019 (1.34x as on March 31, 2018). The debt protection parameters as reflected by the interest coverage ratio remained comfortable at 2.35x in FY19 (FY18: 2.38x) driven by higher EBITDA. Further, the Total debt to GCA also remained moderate at 9.47 years in FY19 (9

years in FY18). Infomerics expects moderation in leverage ratios due to proposed availment of term debt for funding the ongoing capex.

Key Rating Weaknesses

- **Profitability susceptible to volatility in raw material prices**

The major raw-material required for the manufacturing of ductile casting is pig iron, steel scrap, ferro-silico manganese which are highly volatile in nature. SIFPL operates on moderate margins and raw material is one of the major cost drivers. Hence, the profitability is sensitive to adverse movement in prices of finished goods and/or raw materials

- **Strong competitive pressures from other established domestic players**

The industry is riddled with high competition due to presence of several domestic and international players. Intense competition from both domestic and international players is having a negative impact on the profitability of the company.

- **Risk associated with On-going project**

The company is setting up a new plant in existing premises at a total envisaged cost of Rs.36.14 crore to be funded at debt equity ratio of 2:1. The company has already incurred total cost of Rs.24.62 crore till January 10, 2020 by means of its internal accrual and expects the commercial operation of the plant to get started by March, 2020. The company will incur the balance cost of the project through its own fund and then take term loan from Bank.

- **Working capital intensive nature of business**

SIFPL's operation is working capital intensive in nature as it has a policy to maintain high level of inventory for smooth manufacturing operation and need to provide high credit period to its customers in view of intense competition in the industry. However, the operating cycle improved from 236 days in FY18 to 157 days in FY19 mainly due decrease in debtor collection period (from 182 days in FY18 to 120 days in FY19). However, the average Cash Credit utilisation remained satisfactory at about ~70% during the past 12 months ended on December, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The company has earned a GCA of Rs.3.79 crore as compared to its debt repayment obligation of Rs.0.01 crore in FY19. Further, the Company projected to earn a GCA of ~Rs.3.08 crore vis-à-vis its debt repayment obligation of ~Rs.1.44 crore in FY20. Working capital utilization, however, remained moderate with average utilisation of about ~70% over the last 12 months ending December 2019 indicating buffer. Further, the company has sufficient gearing headroom due to its comfortable capital structure.

About the Firm

Super Iron Foundry Pvt. Ltd. (SIFPL), was incorporated on July 15, 1988. The company started commercial from 2013 to carry on the business of manufacturing and export of ductile iron casting for Municipal departments, Water Works, and Automobile Segment. With manufacturing facility of 15,000 MTPA, located in West Bengal, SIFPL have been able to export 100% of its product to countries in Europe and Middle East Asia. SIFPL belongs to the Kolkata-based, SIF Group which has Super Iron Foundry (a Partnership Firm into export of Grey Iron castings) and two investment arms-ABI Trading Pvt Ltd (NBFC) and Fairplan Vincon Pvt Ltd (NBFC) as the other Group concerns. Mr. Akhilesh Saklecha and Mr. Abhishek Saklecha are the Directors and key persons of SIFPL.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	39.36	84.82
EBITDA	3.44	6.41
PAT	0.67	1.08
Total Debt	26.10	35.87
Tangible Net worth	28.35	41.66
EBITDA Margin (%)	8.74	7.56
PAT Margin (%)	1.65	1.27
Overall Gearing Ratio (x)	0.92	0.86

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CARE has moved the rating of SIFPL 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 January 07, 2019.

Any other information: Nil

Rating History for last three years:

Sr.	Name	of	Current Rating (Year 2019-20)	Rating History for the past 3 years
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No.	Instrument/Facilities	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.	Bank Facilities	Long Term	23.00	IVR BBB- /Stable	-	-	-
2.	Bank Facilities	Short Term	18.80	IVR A3	-	-	-
3.	Proposed Bank Facilities	Long Term	36.00	IVR BBB- /Stable	-	-	-
4.	Proposed Bank Facilities	Short Term	36.30	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.

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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)	Ratings Assigned/ Outlook
Long Term Bank Facilities – Export Packing Credit/ Packing Credit in Foreign Currency	-	-	-	23.00	IVR BBB- / Stable Outlook
Proposed Long Term Bank Facilities – Export Packing Credit/ Packing Credit in Foreign Currency	-	-	-	10.00	IVR BBB- / Stable Outlook
Proposed Long Term Bank Facilities – Term Loan	-	-	-	26.00	IVR BBB- / Stable Outlook
Short Term Bank Facilities- Foreign Bill Purchase/ Bill Discounting	-	-	-	17.00	IVR A3
Proposed Short Term Bank Facilities- Foreign Bill Purchase/ Bill Discounting	-	-	-	33.00	IVR A3
Short Term Bank Facilities- Bank Guarantee	-	-	-	1.80	IVR A3
Proposed Short Term Bank Facilities- Bank Guarantee	-	-	-	3.30	IVR A3
Total				114.10	