



## Press Release

### S M Niryat Private Limited

April 01, 2021

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	36.00	IVR A- / Stable (IVR A Minus; with Stable Outlook)	Assigned
Short Term Bank Facilities	4.50	IVR A2+ (IVR A Two Plus)	Assigned
<b>Total</b>	<b>40.50</b> <b>(Forty crore fifty lakh only)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating assigned to the bank facilities of SM Niryat Pvt Ltd (SMNPL) derives strength from its experienced promoter, robust growth in scale of operations during past three fiscals and forward integration initiatives through subsidiary and favourable demand outlook for iron ore export in the near term. The ratings also note its strong financial risk profile marked by comfortable capital structure and strong debt protection metrics. However, these rating strengths are constrained by revenue concentration risk, exposure to risks inherent in the iron ore trading segment with intense competition in the operating spectrum, susceptibility to regulatory changes, susceptibility of operating margin to cyclical nature of business, volatile commodity price and foreign exchange fluctuations risk.

#### Key Rating Sensitivities:

##### Upward Factors

- Consistent improvement in total operating income, profit margins and healthy liquidity position.
- Improvement in the capital structure with improvement in TOL/TNW, below 2x.
- Continued low debt repayment obligation and maintaining low operating cycle.

##### Downward Factors

- Dip in scale of operations with moderation in profitability with moderation in operating margin below 4% and dip in cash accruals on a sustained basis
- Deterioration in overall gearing above 1x and/or significant moderation in debt protection metrics
- Any negative government regulations



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### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoter**

The promoters of SMNPL are highly experienced with more than one and half decades of experience in trading segment. Manish Khemka, 50 years of age is the Chairman of the company with more than 15 years of experience in trading and logistical management for various commodities is at the helm of affairs of the company.

##### **Robust growth in scale of operations**

The total operating income of the company increased multi-fold from Rs.246.37 crore in FY18 to Rs.2567.59 crore in FY20 mainly driven by higher volume of trade and rise in prices of iron ore fines, with significant rise in export to China attributable to strong Chinese domestic demand. With sharp growth in total operating income, the profitability of the company has also witnessed multi-fold increase with significant improvement in absolute profit from ~Rs.1 crore in FY18 to ~Rs.76 crore in FY20 coupled with gradual increase in EBITDA margin from 2.96% in FY18 to 4.03% in FY20 and PAT margin from 0.44% in FY18 to 2.95% in FY20. Further, gross cash accruals of the company have also increased from Rs.2.14 crore in FY18 to Rs.76.96 crore in FY20. The sharp uptrend in top line continued in FY21, and the company has achieved a revenue of Rs. 2812 crore in 9MFY21 with an EBITDA of ~Rs.273 crore. Infomerics expects that the growth will continue in the near term and the company will post robust profit in FY21.

##### **Forward integration initiatives through Subsidiary**

The promoters brought a sick steel company from ARC through SMNPL as its wholly owned subsidiary and planning to start an integrated steel plant with sponge iron, captive power and TMT manufacturing capacity. The operations of the company are expected to start from August 2021. Further, the entire capex is being done from own sources.

##### **Strong financial risk profile marked by comfortable capital structure and strong debt protection metrics**

The financial risk profile of the company remained strong attributable to its conservative capital structure and healthy profitability leading to strong debt protection metrics. The capital structure of the company remained conservative marked by insignificant long-term debt, low use of bank borrowings and healthy net worth base with an overall gearing of 0.24x as on March 31,2020.



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However, the total indebtedness of the company remained moderate marked by TOL/TNW at 4.21x as on March 31, 2020. Backed by conservative capital structure coupled with gradual increase in profitability and strong cash accruals the debt protection metrics of the company witnessed sharp improvement over the past three fiscals. The interest coverage ratio and Total debt to GCA improved from 2.74x and 16.09x respectively in FY18 to 16.63x and 0.40x respectively in FY20. Infomerics expects further improvement in its debt protection metrics in the near term with sharp rise in profitability.

However, the commodities that SMNPL trades in is cyclical in nature, therefore, moderation in revenue and margins may be expected in the long run.

### **Favourable demand outlook for iron ore export in the near term**

The iron ore export outlook is expected to remain favourable in near to medium term due to global demand supply disruptions. Disruption in the supply of iron ore by the world's top two exporters – Australia and Brazil – has created a huge opportunity for India to supply its low-grade material to China, the largest consumer in the world. Chinese steel output hit all-time highs in September, as state-backed investment in infrastructure projects took centre-stage amid the nation's resurgence from the pandemic. Iron ore exports from India surged 70.3% to 29.2 million tonnes (mt) during H1FY21 compared with the corresponding period of FY20.

### **Key Rating Weaknesses**

#### **Exposure to risks inherent in the iron ore trading segment and susceptibility to regulatory changes**

SMNPL operates at low operating profit margin due to trading nature of its business and intense competition in the industry. The profit margins are further susceptible to volatility in price of traded goods. Further, regulatory changes like iron-ore mining ban, restrictions in imports/exports have also affected the industry in the past and iron ore export segment was significantly affected during FY15 and FY16 due to global slump in iron ore prices along with mining ban and high export duty structure in India. Hence, if the government policy is not in favour of the export of these minerals in which the company trades, it can affect the turnover and the top-line of the company significantly. Further, the policies and economic condition of the countries to which the company exports to may adversely affect the demand for the products that is exported.



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### **Revenue concentration risk**

The company is exposed to product concentration and geographical concentration risk as majority of its revenue is derived from export of a single product iron ore to China. Hence any adverse economic scenario may hamper the revenue and profitability of the company.

### **Susceptibility of operating margin due to cyclical nature of business, volatile commodity price and foreign exchange fluctuations risk**

The commodities that SMNPL trades in is cyclical in nature, therefore, moderation in revenue and margins may be expected in the long run. Iron ore fines export trading segment is highly exposed to various market risks arising out of volatility in iron-ore prices largely influenced by international commodity prices, demand-supply dynamics and national /international macro-economic trends. Further, all the commodities that the company trades in, is susceptible to volatile price movements due to international prices and foreign exchange value. Hence, volatility of commodity prices and foreign exchange fluctuation is also a significant risk. SMNPL recorded foreign exchange losses of ~Rs.32 crore in FY20 compared to ~Rs.16 crore in FY19 in absence of any proper hedging mechanism.

### **Highly fragmented & competitive nature in trading business with significant price war**

The commodities trading business is highly fragmented and there are number of players of all sizes across India. Also, since the company does not own any mines, it has relatively low bargaining power to borrow from the supplier and due to number of competitors the power to bargain from the end customer is also low. Hence, the business can sustain only if it has high volume since margins are low and may improve if significant costs are under control or minimal.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non- Financial Sector)

### **Liquidity – Strong**

The company's liquidity is strong marked by its healthy expected gross cash accruals vis-à-vis its insignificant debt repayment obligations in FY21-FY22. Further, the company has adequate gearing headroom underpinned by its conservative capital structure. Moreover, the average



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utilization of fund-based limits was only ~50% for the past 12 months ended January 2021 indicating an adequate liquidity buffer.

### About the Company

SM Niryat was started as a partnership firm in 2004 and later converted into a company in 2005 as SM Niryat Pvt Ltd (SMNPL) and operated as a goods transport enterprise for minerals such as iron ore – fines, pellets, lumps etc, manganese and other minerals of various grades. The company gradually started import and export of scrap metal. The trade activities are managed from Haldia Port, Vizag Port & Paradeep Port. The promoters have bought an existing steel manufacturing company, Nilachal Iron & Power Ltd from ARC through SMNPL and is planning to start an integrated steel manufacturing facility under it. The operations of the plant are expected to start from August, 2021 with sponge iron, 12 MW captive power and TMT manufacturing facility. Nilachal Iron & Power Ltd is now a wholly owned subsidiary of SMNPL.

### Financials: Standalone

(Rs. crore)

For the year ended*/ As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	473.33	2567.59
EBIDTA	11.62	103.36
PAT	6.02	75.88
Total Debt	42.78	30.67
Adjusted Net worth	51.16	127.05
EBIDTA Margin (%)	2.46	4.03
PAT Margin (%)	1.27	2.95
Overall Gearing Ratio (x)	0.8	0.24

\*as per Infomerics standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (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	LT/ST	22.50	IVR A- / Stable (IVR A Minus ; with Stable	-	-	-





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				Outlook)			
2.	EPC/PCFC	LT/ST	13.50	IVR A- / Stable (IVR A Minus ; with Stable Outlook)			
3	Proposed	ST	4.50	IVR A2+ (IVR A Two Plus)			

**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).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Chandrakant Bagri	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: <a href="mailto:chandrakant.bagri@infomerics.com">chandrakant.bagri@infomerics.com</a>	Email: <a href="mailto:apodder@infomerics.com">apodder@infomerics.com</a>

### 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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concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### 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 / Short Term Bank Facilities – Cash Credit	-	-	-	22.50	IVR A- / Stable (IVR A Minus ; with Stable Outlook)
Long Term / Short Term Bank Facilities – PC/PCFC	-	-	-	13.50	IVR A- / Stable (IVR A Minus ; with Stable Outlook)
Short Term – Proposed	-	-	-	4.50	IVR A2+ (IVR A Two Plus)