



Press Release

Sundaram Steels Pvt Ltd

March 24, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facility	32.09	IVR BBB/Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	Assigned
Short Term Bank Facility	10.74	IVR A3+ (Pronounced as IVR Single A three plus)	Assigned
Proposed Long Term Facility	15.17	IVR BBB/Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	Assigned
Total		58.00 (INR Fifty Eight Lakhs Only)	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sundaram Steels Pvt Ltd (SSPL) derive strength from the rich experience of more than a decade of the promoters, moderate business risk profile, comfortable financial risk profile, and efficient working capital management. However, the ratings are constrained by declining profitability margins, susceptibility of the operating margin to volatility in input prices, intense competition, and cyclical in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Increase in scale of operations, as projected, with increase in sales volumes.
- Sustained operating margins at 5% and above.

Downward Factors

- Any lower than projected EBITDA margins, leading to a decline in interest coverage from the present level.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Rich experience of the promoters:** The promoters of the company, Mr. Mohit Jain, Mr. Amit Jain, Mr. Yogesh Manek, Mr. Anurag Singhania have more than a decade experience in iron and steel industry. SSPL will continue to benefit from long experience of the management and well-established relationship with their key suppliers and customers.
- **Moderate business risk profile:** The revenue of the company stood moderate at Rs.126.32 crore in FY 2020 as compared to Rs. 102.62 crore in the previous year. This significant increase in revenue is mainly due to increase in capacity utilization to 95 per cent in FY2019 as against of 65 per cent in previous year. Also, the company is expecting a jump in the total operating revenue by over 150% to Rs. 270.00 crore approximately as it has set up a new manufacturing unit with installed capacity of 120000 MT of M S Billets in FY20. . The unit will operate at 85% of the installed capacity.
- **Comfortable financial risk profile:** The financial risk profile of the company is marked by healthy net worth, low gearing levels and comfortable debt protection metrics. The net worth of the company stands healthy at Rs. 35.90 crore in FY 2020 which is backed by the unsecured loans from the directors, the gearing levels were low marked by overall gearing and total indebtedness (TOL/ATNW) of 0.64x and 1.04x respectively in FY 2020 as against 0.25x and 0.58x respectively in FY 2019. Interest coverage and DSCR were above average and were comfortable at 3.85x and 3.60x respectively in FY 2020 as against 3.07x and 2.96x respectively in FY 2019.
- **Efficient working capital management:** Due to the reduction in the average collection period to 24 days in FY 2020 from 33 days in FY 2019, the operating cycle has also improved to 52 days in FY 2020 from 57 days in FY 2019. Operating cycle is expected to improve further and remain between 30-45 days in the medium term due to the reduction in the average collection period.



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Key Rating Weaknesses

- **Declining profitability margins:** The operating profitability of the company has further slipped to 6.21% in FY 2020 as compared to 7.26% in FY 2019. The net profitability of the company has also declined and stood low at 1.21% in FY 2020 as compared with 1.38% in previous year.
- **Susceptibility of the operating margins to volatility in input costs:** The key raw materials iron ore and coal prices have shown a volatile trend over the past years any adverse movement might impact operating margin. However, the company is able to partially pass on the increase to the customers.
- **Intense Competition:** The Company faces competition in terms of cost from larger integrated players in the industry having captive iron ore mines and captive power plants. The Company can mitigate this risk to a large extent by further diversification or by expansion towards integrated operations.
- **Cyclicality in steel industry:** The steel industry is highly cyclical in nature and is correlated with economic development, which directly affects its fortunes. This is the inherent risk of the steel industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The company has adequate liquidity marked by sufficient cash accruals of Rs. 5.47 crore in FY 2020 as against no major yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 8.25 crore to Rs. 8.50 crore during 2021-23 against Rs. 3.53 crore of repayment obligations. The working capital intensity of the company is marked by gross current asset (GCA) days of 87 days in FY 2020. The bank limit is 84% utilized by the company during the last twelve months ended January 2021. However, the current ratio of the company stood inadequate at 1.18x as in FY 2020.



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About the Company

Sundaram Steels Private Limited (SSPL) was incorporated in 2008 with its registered office in Varanasi, U.P. The plant of the company is situated in Bokaro, Jharkhand. Mr. Anurag Singhania, Mr Yogesh Manek, Mr Mohit Jain and Mr. Amit jain are the Directors of the company. The company is engaged in manufacturing sponge iron. The installed capacity of the plant is 65,000 MTPA. The company has gone for forward integration and manufacturing unit for MS Billet with an installed capacity of 120000 MTPA, the commercial operations for the same had commenced in March, 2020. The company sells its final product directly to the blast furnace industry mainly in Uttar Pradesh and Jharkhand. The major raw materials required for production of sponge iron and MS Billet are iron ore, coal, limestone, and mild steel scrap.

Financials (Standalone):

(Rs. Crore)

For the year ended*/As on	31-03-2020	31-03-2019
Total Operating Income	126.32	102.62
EBITDA	7.84	7.45
PAT	1.53	1.42
Total Debt	31.45	17.08
Adjusted Tangible Net Worth	35.90	36.08
EBITDA Margin (%)	6.21	7.26
PAT Margin (%)	1.21	1.38
Overall Gearing Ratio (x)	0.64	0.19

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by BWR vide press release dated February 14, 2020 due to non-availability of information.

Any other information: NA



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Rating History for last three years:

Sr. No.	Name of 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.	Term Loan (O/s)	Long Term	13.46	IVR BBB/Stable	--	--	--
2.	Cash Credit		13.80		--	--	--
3.	WCTL		4.83		--	--	--
4.	Proposed Facility		15.11		--	--	--
5.	Bank Guarantee	Short Term	10.74	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:

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information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary 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 Bank Facility- Term Loan (O/s)	-	-	-	13.46	IVR BBB/Stable
Long Term Bank Facility- Cash Credit	-	-	-	13.80	
Long Term Facility- WCTL	-	-	-	4.83	
Proposed Long Term Bank Facility	-	-	-	15.11	
Short Term Bank Facility- Bank Guarantee	-	-	-	10.74	IVR A3+