Press Release

Swati Concast & Power Private Limited

March 22, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	11.00	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities – Bank Guarantee	9.00	IVR A3 (IVR A Three)	Reaffirmed
Total	**20.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Swati Concast & Power Private Limited (SCPPL) continues to derive comfort from its experienced promoters, locational advantage and prudent working capital management. The ratings also factor in improvement in its profit margins coupled with comfortable capital structure albeit moderation in debt protection metrics in FY20. These rating strengths are partially offset due to its moderate scale of operations with thin profitability, exposure to foreign currency fluctuation risk, volatile input prices and cyclicality in the steel industry.

Key Rating Sensitivities:

Upward factors

- 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 improvement in debt protection metrics with interest coverage ratio remained over 3x
- Effective working capital management with improvement in operating cycle and liquidity

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in the capital structure with overall gearing to above 1.5x and interest coverage to below 2x

- Elongation in the operating cycle impacting the liquidity and average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

SCPPL has been promoted by the Jharkhand based Kejriwal family. The promoters have been engaged with the steel industry over past two decades. Over the years, they have gained good business insights and have established healthy relationships with customers and suppliers.

Locational advantage

The manufacturing facilities of SCPPL is in Giridih, Jharkahnd which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron, iron scrap, billets, TMT bars and other steel products. Further, sourcing of iron ore and coal from nearby coal mines is not an issue. Presence in steel belt reduces the business risk to an extent.

Moderation in TOI in FY20 albeit improvement in margins

Total operating income (TOI) witnessed a y-o-y decline from Rs.140.76 crore in FY19 to Rs.127.01 crore in FY20 due to slowdown in the steel industry leading to decline in volume sales (in runner and slag segment) as well as decline in sales realisation (pig iron segment) of the products manufactured by the company. Also, the sudden outbreak of COVID 19 pandemic and the ensuing lockdown from March 22, 2020 onwards added to the decline in TOI in FY20. In spite of the decline in TOI in FY20 as compared to FY19, absolute EBITDA increased from Rs.4.89 crore in FY19 to Rs.5.30 crore in FY20 resulting in marginal increase in EBITDA margin from 3.48% in FY19 to 4.17% in FY20. This is due to decrease in raw material cost in FY20 as well as cost optimisation by the company. Consequently, PBT and PAT margin also increased marginally from 0.69% and 0.51% respectively in FY19 to 0.77% and 0.53% respectively in FY20. In 11MFY21, SCPPL achieved a top line of Rs.147.67 crore.

Comfortable capital structure albeit moderation in debt protection metrics in FY20

The capital structure of the company continued to remain comfortable with long term debt equity ratio of 0.41x (0.13x as on March 31, 2019) and overall gearing of 0.88x (0.51x as on March 31, 2019) as on March 31, 2020. However, marginal moderation in the capital structure was due to increase in total debt from Rs.11.61 crore as on March 31, 2019 to Rs.20.47 crore as on March 31, 2020. With moderation in cash accrual, Total debt to GCA moderated in FY20 and stood at 7.24x (3.72x in FY19). However, interest coverage ratio continued to remain comfortable at 2.93x in FY20 (3.73x in FY19).

Prudent working capital management

The company exhibited prudent management of its working capital marked by its satisfactory operating cycle of 40-55 days during FY18-FY20. Moreover, utilisation in its fund based working capital limits also remained satisfactory at ~77% during the past 12 months ending January, 2021 indicating an adequate liquidity buffer.

Key Rating Weaknesses

Moderate scale of operations with thin profitability

SCPPL is continued to remain a moderate sized player in the highly fragmented steel industry with total operating income of Rs.127.01 crore and PAT of Rs.0.67 crores in FY20. The moderate scale of operations restricts the diversification of product and limits the benefits arising out of economies of scale. Further, the profit margins of the company also remained thin and range-bound over the year.

Exposure to foreign Currency fluctuation risk

SCPPL has around 15% of its revenue coming from overseas in FY20. Further, the company is largely dependent on imports of coal and iron ore. Consequently, the company remains exposed to the fluctuations in forex rates. Due to the presence of both exports and imports, there exists natural hedging. However, in absence of proper hedging policy the company is exposed to foreign currency fluctuation risk.

Susceptibility of the operating margin to volatility in input costs

The key raw materials of the company – iron ore and coke, had shown a volatile trend over the years. Any adverse movement in the prices of raw material can have an adverse impact on the operating margins of the company. However, the same is partially passed on to the customers.

Cyclicality in the steel industry

The steel industry is characterised by its inherent cyclicality. The industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. This is likely to keep the profitability and cash flows of all the players in the industry, including SCPPL, volatile going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity profile of SCPPL is expected to remain adequate with its expected satisfactory cash accruals vis a- vis its debt repayment obligations. Further, the average cash credit utilisation of the company remained comfortable at ~77% during the past 12 months ended January, 2021 indicating a sufficient liquidity cushion. Moreover, the company has sufficient gearing headroom due to its comfortable capital structure marked by overall gearing of 0.88x as on March 31, 2020. Also the company has modest free cash and cash equivalents of Rs.2.57 crore as on January 31, 2021.

About the Company

Incorporated in May, 1993 and acquired by Jharkhand based Kejriwal family in 2003, Swati Concast and Power Private Limited (SCPPL, Erstwhile Chandrabhan Vanijya Pvt Ltd) is engaged in manufacturing and sale of sinter and pig iron. The company has its manufacturing facility at Giridih, Kharkhand with an installed capacity of 1,36,111 MTPA for the sinter plant and 42,446 MTPA for pig iron.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	**31-03-2019**	**31-03-2020**
	Audited	**Audited**
Total Operating Income	140.76	127.01
Total Income	140.89	127.17
EBITDA	4.89	5.30
PAT	0.72	0.67
Total Debt	11.61	20.47
Tangible Net worth	22.57	23.24
EBITDA Margin (%)	3.48	4.17
PAT Margin (%)	0.51	0.53
Overall Gearing Ratio (x)	0.51	0.88

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

CRISIL has moved the rating of SCPPL 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 July 24, 2020.

India Ratings has moved the rating of SCPPL 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 July 10, 2020.

Brickwork Ratings has moved the rating of SCPPL 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 February 03, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	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	11.00	IVR BBB-/Stable	IVR BBB-/Stable (April 22, 2020)	-	-	-
2.	Bank Guarantee	Short Term	9.00	IVR A3	IVR A3 (April 22, 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.

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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.

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	-	-	-	11.00	IVR BBB-/Stable
Short Term Bank Facilities – Bank Guarantee	-	-	-	9.00	IVR A3