



## Press Release

**Sharu Steels Pvt Ltd**

**(SSPL)**

**June 10, 2022**

### Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action	Complexity Indicator
1	Long Term Bank Facilities	20.79 (Reduced from Rs.21.44 crore)	IVR BB+/ Positive Outlook [IVR Double B Plus with Positive Outlook]	Rating Reaffirmed and Outlook revised from Stable to Positive	Simple
2	Short Term Bank Facilities	20.00	IVR A4+ [IVR A Four Plus]	Rating Reaffirmed	Simple
	<b>Total</b>	<b>40.79</b>			

**Details of facilities are in Annexure 1**

### Rating Rationale

The revision in the Outlook from Stable to Positive is on account of improved total operating income in FY22 (Prov.) coupled with positive outlook for the steel sector.

The reaffirmation in the rating of the bank facilities of Sharu Steels Pvt Ltd derives strength from Extensive industry experience of the promoters coupled with long existence in the market, Moderate working capital cycle and Healthy growth witnessed in the top line and profits in FY2022 (provisional). The ratings are, however, constrained by Susceptibility of EBITDA margin to volatility in raw material prices, Geographic concentration risk and Intense competition in the industry.

### **Key Rating Sensitivities:**

#### ➤ **Upward Rating Factor:**

- Healthy growth in revenue and EBITDA margin by over 5%, along with sustenance of working capital cycle.



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- Improvement in financial risk profile metrics.
- **Downward Rating Factor:**
  - Steep decline in revenue and operating margin below 2%.
  - Stretch in the working capital cycle, or any large debt-funded capex, weakening the financial risk profile, especially liquidity.

### Detailed Description of Key Rating Drivers

#### **Key Rating Strengths**

**Extensive industry experience of the promoters coupled with long existence in the market:** The promoters have an experience of nearly three decades in the steel industry, which has enabled them to develop a sound understanding of the local market dynamics. Over their long tenure, they have developed strong relations with customers and suppliers. Furthermore, SSPL has its footprint in the market since 1987 which has also benefitted the company.

**Moderate working capital cycle:** SSPL has moderate working capital requirements, as reflected in GCAs of 110 days as in FY22(Provisional), driven by debtors and inventory of 53 days and 40 days. Working capital requirements are supported by bank lines and creditors which stood at 19 days as in FY22(Provisional).

**Healthy growth witnessed in the topline and profits in FY2022 (provisional):** The topline of the company stood at Rs. 221.76 crore in FY2022 (provisional) depicting a y-o-y increase of ~37% on the back of increase in sales volume and increase in average realisation. Consequently, profit after tax increased to Rs. 2.19 crore in FY2022 (provisional) from Rs. 1.55 crore. The gross cash accruals have also witnessed a steady improvement over the last few years on the back a consistent increase in the profits of the company.

#### **Key Rating Weaknesses**

**Susceptibility of EBITDA margin to volatility in raw material prices:** Cost of production and profit margin are heavily dependent on raw material prices (steel scrap). Furthermore, profitability is linked to the fortunes of the inherently cyclical steel industry, which has strong correlation with overall growth in gross domestic product. Operating performance will remain



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susceptible to volatility in raw material prices, and offtake by key user sectors. EBITDA margin has been at 3.14% to 4.36% over the past two fiscals ended 2022.

**Geographic concentration risk:** SSPL has a customer base located mainly in Ludhiana and Chandigarh which exposes the company to geographic concentration risk. Although, the company has plans to geographically diversify and tie-up with customers spread in whole northern region of India.

**Intense competition in the industry:** The industry is highly competitive with a large number of organised and unorganised players which limits the bargaining power of the company and places pressure on profitability.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning Rating Outlook.](#)

**Liquidity: Adequate**

The liquidity position of the company is expected to remain adequate in the near term, as company is generating sufficient cash accruals against its long-term debt obligations. Further, the company's current ratio and liquidity ratio stood at 1.37x and 0.79x respectively as on March 31, 2022. However, as the company's operations are working capital intensive in nature it leads to higher reliance on the working capital limits. The average bank limit utilization stood at approximately 82% for twelve months ended March 2022.

**About the Company**

Incorporated in the year 1987, Sharu Steels Private Limited (SSPL) was formerly known as Amita Spinners Pvt Ltd, subsequently the name was changed to Sharu Steels Pvt Ltd on March 17, 1987. It is engaged in the manufacturing of steel ingots and round bars. The manufacturing facility of the company is located at Ludhiana, Punjab. The company has an induction furnace and a rolling mill with a capacity of 30600 TPA as on March 31, 2022. The company is promoted by experienced personnel who carry rich experience of over three



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decades in the line of business.

### Financials (Standalone)

INR in Crore

For the year ended / As on*	31-Mar-21 Audited	31-Mar-22 Provisional
Total Operating Income	160.88	221.29
EBITDA	7.01	6.95
PAT	1.55	2.19
Total Debt	32.00	37.81
Tangible Net Worth	18.49	21.21
EBIDTA Margin (%)	4.36	3.14
PAT Margin (%)	0.96	0.99
Overall Gearing ratio (x)	1.73	1.78

\*Classification as per Infomerics' standards

**Details of Non Co-operation with any other CRA:** INC from Brickwork Ratings as per Press Release dated January 27,2022 due to unavailability of information.

**Any other information:** Not Applicable

### Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2022-23)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (May 27, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
Term Loan	Long Term	3.79	IVR BB+/ Positive Outlook	IVR BB+/Stable Outlook	-	-
Cash Credit	Long Term	17.00	IVR BB+/ Positive Outlook	IVR BB+/Stable Outlook	-	-
ILC/FLC	Short Term	20.00	IVR A4+	IVR A4+	-	-

**Name and Contact Details of the Rating Analysts:**



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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

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### Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	2023	2.31	IVR BB+/ Positive
Term Loan	-	-	2024	1.48	IVR BB+/Positive
Cash credit	-	-	-	17.00	IVR BB+/Positive
ILC/FLC	-	-	-	20.00	IVR A4+

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable**

**Annexure 3: Facility wise lender details** <https://www.infomerics.com/admin/prfiles/Lender-10-06-22-SSPL.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**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).