Press Release

Saurashtra Fuels Private Limited

April 5, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	85.00 (Enhanced from Rs.48.19 crore)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed with Revision in Outlook from positive to Stable	Simple
Short Tern Bank Facilities	175.00 (Enhanced from Rs.51.81 crore)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**260.00 (Rupees Two Hundred and Sixty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation to the ratings assigned to the bank facilities of Saurashtra Fuels Private Limited (SFPL) takes into account long operational track record and experienced promoters, robust financial risk profile and strategic location of the plants. The ratings are, however constrained by volatility in raw material and finished goods prices, highly competitive and fragmented industry Susceptible to performance of end-user industry and cyclical demand in the coke industry.

Key Rating Sensitivities:

Upward Factors

- Improvement in scale of operations marked by TOI of above Rs 1000 crore
- Increase in EBIDTA margin above 7.5% on a sustained basis.
- Improvement in overall gearing (on net worth including quasi equity) below 0.30x

Downward Factors

- Decline in TOI below Rs 800 crore
- EBIDTA margin below 5.00% on a sustained basis
- Deterioration in Overall gearing (on net worth including quasi equity) above 1.00x
- Any un-envisaged debt funded capex undertaken by the company.

- Withdrawal of subordinated unsecured loan (treated as quasi-equity) amounting to Rs.6.19 crore either partially or fully, and/or moderation in the capital structure.

Outlook: Stable

The revision in outlook from 'Positive to 'Stable' is on account of stable financial risk profile for year ended March 31, 2022.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long operational track record and experienced promoters

SFPL's directors, Mr. Dipak Agarwalla, and Mr. S K Sinha have experience of over three decades in this industry. The top management along with a team of capable professionals look after the day-to-day operations of the company. Company is the largest LAM coke player in India in terms of capacity, with installed capacity of 14 lakh ton per annum (TPA). Over the years, the company has developed a strong relationship with customers such as JSW Steel Ltd, Electrotherm India Ltd, Hindustan Zinc Ltd, Gujarat Heavy Chemicals Ltd, and Nirma Ltd, resulting in repeat orders.

Robust financial risk profile

Continuous improvement in accretion to reserves has resulted in a robust financial capital structure. The overall gearing ratio (on net worth including quasi equity) and TOL/ TNW (on networth including quasi equity) stood at a moderate level at 0.33 times and 1.48x respectively as on March 31, 2022, as against 0.44 times and 1.71 respectively as on March 31, 2021. With no debt funded capex plan in the near term, the capital structure is expected to remain robust supported by healthy accretion to reserves. Debt protection metrics also remained robust, supported by the improving profitability and debt repayment. Interest coverage and total debt to GCA ratios stood at 17.51x and 0.67x respectively in FY22 as compared with 2.76x and 4.54x in FY21.

Strategic location of the plant

SFPL majorly imports coking coal mainly from Australia, its coke manufacturing facility is in proximity to Kandla Port (~40 Km) which facilitates SFPL to readily transport coal to its plant location, thereby enabling it to save on its inward freight cost. Further, majority of the customers of SFPL are also located across the state of Gujarat.

Key Rating Weaknesses

Volatility in raw material and finished goods prices

Operating margin is susceptible to fluctuations in input prices (coal) as well as realization of finished goods. Any sharp delta in input prices in the absence of almost similar delta in realizations can significantly dent profitability. As most of the procurement is against confirmed orders, the margins are protected to a large extent.

Highly competitive and fragmented industry

The buffalo meat processing industry is highly fragmented and competitive because of the presence of large, organised players and numerous mid-sized players. The competition is further aggravated by exports from other major meat-exporting countries such as Brazil and Australia. This keeps the pricing flexibility of the industry participants in check and limits profitability.

Susceptible to performance of end-user industry and cyclical demand in the coke industry

Coke is used as fuel in the iron and steel industry. Hence, prospects for the LAM coke industry are linked to the overall fortunes of this end-user segment. The inherent cyclicality in the steel business, the key consuming industry, is likely to keep the cash flows and profitability of the company volatile. However, the company also caters to other industries, which mitigates the risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

Policy on Default Recognition

Criteria of assigning Rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the company is adequate marked by gross cash accruals of Rs.112.05 crore as against negligible debt repayment obligation in FY22. The average working capital utilization 60.23% for the 12 months ended January 31, 2023. Free cash and liquid investments of the company is ~Rs. 1.22 crore in FY22.The company has no major capex plans in FY23-FY25. Current ratio was moderate at 2.07 times as on March 31, 2022, and is expected to remain moderate going ahead as well.

About the company

Gujarat based Saurashtra Fuels Private Limited (SFPL) was co-promoted by the Agarwalla and Sinha group in 1993 with the objective of producing quality low ash metallurgical coke with the latest technology based on imported coal in Western India. SFPL is India's largest manufacturer of low ash metallurgical coke. With a cumulative production of 14 lakh tonnes spread over 6 manufacturing facilities.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	211.97	1252.70
EBITDA	16.33	154.77
PAT	1.90	101.61
Total Debt	54.32	75.62
Adjusted Tangible Networth (including quasi equity)	124.40	226.02
Ratios		
EBITDA Margin (%)	7.71	12.36
PAT Margin (%)	0.89	8.10
Adjusted Overall Gearing Ratio (including quasi equity) (x)	0.44	0.33

*Classification 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 Facilities	Current Ratings (Year 2023-2024)					
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023 (July 19, 2022)	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based Facility – Term Loan	Long Term	10.00	IVR BBB-/ Stable	-	-	-
2.	Fund Based Facility – Cash Credit	Long Term	75.00	IVR BBB-/ Stable	-	-	-
4	Short Term Non Fund Based Facility – Letter of Credit	Short Term	175.00	IVR A3	-	-	-
5	Fund Based Facility – Term Loan	Long Term	10.19	-	IVR BBB- / Positive	-	-
6	Fund Based Facility – Cash Credit	Long Term	30.00	-	IVR BBB- / Positive	-	-
7	Long Term Fund Based Facilities - Proposed	Long Term	8.00	-	IVR BBB- / Positive	-	-
8	Short Term Non-Fund Based Facilities- Letter of Credit	Short Term	30.00	-	IVR A3	-	-
9	Short Term Non-Fund Based Facilities – Proposed	Short Term	21.81	-	IVR A3	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	March- 2025	10.00	IVR BBB-/ Stable
Cash Credit	-	-	-	75.00	IVR BBB-/ Stable
Letter of Credit	-	-	-	175.00	IVR A3

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

Annexure 3: Facility wise lender details https://www.infomerics.com/admin/prfiles/Lender-SFPL-05042023.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.