Press Release

Sonar Casting Limited

March 25, 2025

Ratings

Security/ Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	43.04 ^ (Reduced from Rs.49.30 crore)	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook] *	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook] *	Rating Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	22.50 (Enhanced from Rs.12.00 crore)	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook] *	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook] *	Rating Reaffirmed	Simple
Short Term Bank Facilities – Bank Guarantee	5.00 (Enhanced from Rs.2.70 crore)	IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement)] *	IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement)] *	Rating Reaffirmed	Simple
Long Term Bank Facilities – Term Loan	22.00 (New Limit)	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	-	Rating Assigned	
Total	**92.54 (Rupees Ninety-two crore and fifty-four lakhs only)**				

^Outstanding as on December 31, 2024

**CE rating based on an unconditional and irrevocable Corporate Guarantee of K. M. Sugar Mills Limited. (KMSM, rated: IVR A-/Stable; IVR A2+)*

Un-supported Rating[1] #	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook) [Rating upgraded from IVR B/ Stable (IVR Single B with Stable Outlook)]

#Unsupported Rating does not factor in the explicit credit enhancement

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

[1] As stipulated vide SEBI circular no. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019

Press Release

The ratings assigned to the bank facilities of Sonar Casting Limited (SCL) is based on the strength of the unconditional & irrevocable Corporate Guarantee given by K M Sugar Mills Limited (KMSM) [Group Concern] to the bank facilities of the company (SCL).

For assigning the ratings, Infomerics has assessed the attributes of the guarantees issued by KMSM in favour of the lenders who have extended the said facilities.

This corporate guarantee results in credit enhancement in the rating of the said bank facilities to IVR A- (CE)/ Stable Outlook [IVR Single A Minus (Credit Enhancement) with Stable Outlook] and IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement) against the unsupported rating of IVR BB-/Stable (IVR Double B Minus with Stable Outlook).

The upgrade in the unsupported rating factors in the improvement in business performance of SCL in FY2024 (refers to the period from April 01 to March 31) and in 9MFY2025. Further, the ratings continue to derive strength from experienced promoters of the company backed by strong management team, locational advantage and corporate guarantee from KMSM. However, the rating is offset by new debt funded capex plan which is likely to create pressure on the capital structure and debt coverage indicators going forward. Further, these rating strengths are also constrained by susceptibility of profitability to volatility in raw material prices due to lack of backward integration, exposure to intense competition and cyclicality in the steel industry.

The 'Stable' outlook reflects Infomerics Ratings expectation of stable business performance marked by growing scale of operations with improvement profitability in the near to medium term.

Key Rating Sensitivities:

Upward Factors:

- Sustained & significant improvement in revenue & profitability leading to improvement in the debt coverage indicators
- Improvement in the capital structure
- Improvement in financial risk profile of the corporate guarantor

Downward Factors:

- Any moderation in revenue and/or profitability thereby impacting the debt coverage indicators of the company
- Any further debt funded capex plan thereby impacting the capital structure and overall liquidity position of the company

- Moderation in the financial risk profile of the corporate guarantor

Adequacy of credit enhancement structure

For assigning the ratings, Infomerics has assessed the attributes of the corporate guarantee issued by KMSM in favour of the lender of SCL who has extended the said facilities. The corporate guarantee extended by KMSM is legally enforceable, unconditional and irrevocable with a well-defined invocation and payment mechanism which cover the entire amount and tenor of the rated facilities. The corporate guarantee results in an enhancement in the rating of the said facilities to IVR A- (CE)/ Stable against the unsupported rating of IVR BB-/ Stable. The adequacy of credit enhancement has been tested after considering guaranteed debt by KMSM. The capital structure and debt protection metrics of KMSM remain adequate.

Transaction Structure

In event of payment default, the following structure will be applicable:

1. T being scheduled due date of payment
2. If the fund available are not sufficient for repayment two (2) days prior to the respective due date of such loan amount, it shall be recognized as 'Event of Default' (EOD)
3. The Lender will invoke the corporate guarantee not later than T-1 days by giving a demand notice to the guarantor.
4. The guarantor upon receipt of such demand notice from the lender shall forthwith and in any case latest by the Due date (T) shall make the payment.

   Infomerics will consider T as its legal final maturity for the purpose of recognition of default.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters backed by strong management team

SCL is currently managed by the promoter directors Mr. Aditya Jhunjhunwala, Mr. Subhash Chandra Agarwal and Mr. Rajiv Gupta who have considerable business experience. Further, they are well supported by a team of experienced and qualified professionals in managing the affairs of the company.

Locational advantage

The manufacturing facility of SCL has been set up at Andal, West Bengal, which is in close proximity to various manufacturers of steel products. Further, the key raw material required by SCL i.e., pig iron and scraps are easily available in and around Andal from areas like Durgapur, Anansol, Dhanbad etc. thereby reducing freight cost. This apart, easy availability of cheap power from West Bengal State Electricity Distribution Company Limited and well-established connectivity by rail and road, also acts as an added advantage.

Stable business performance of KMSM with satisfactory financial risk profile

KMSM's total operating income increased from Rs.575.53 crore in FY2023 to Rs.657.16 crore in FY2024 driven by an increase in revenue from sugar segment. With increase in top line, EBITDA margin improved from 8.63% in FY23 to 10.61% in FY24 driven by increase in sales of refined sugar in the total sales composition which fetches relatively higher margins. Moreover, the net cash accruals of the company also increased from Rs.39.98 crore in FY23 to Rs.51.23 crore in FY24. On the back of improved profitability, the debt protection metrics of the company have also improved marked by improvement in interest coverage ratio to 4.22x in FY24 (3.59x in FY23) and Total debt to GCA to 5.68x as on March 31, 2024 (6.70x as on March 31, 2023). In 9MFY25, KMSM reported a TOI of Rs.505.75 crore with a PAT of Rs. 12.64 crore.

Continuous support from KMSM

SCL has received continuous support from KMSM (rated A-/Stable; A2+ on May 14, 2024), the group concern of SCL in the form of infusion of funds as and when required. Further, KMSM, has extended corporate guarantee for the bank facilities availed by SCL (excluding the new term loan of Rs.22.00 crore sanctioned from Punjab National Bank for capacity enhancement capex). KMSM is in operation from 1949 in Uttar Pradesh, engaged in the manufacturing of sugar, Industrial Alcohols and power and achieved a turnover of ~Rs.657 crore during FY24. KMSM had infused preference shares to the tune of Rs.12.95 crore in FY2024 (total o/s preference share capital is Rs.45.85 crore as on March 31, 2024). Going forward, Infomerics believes timely, need based financial support will also be extended by the corporate guarantor, in case of pressure on cash flows of SCL.

Improvement in business performance o SCL in FY24 and in 9MFY25

SCL witnessed a significant y-o-y growth of ~103% in its TOI from Rs.35.54 crore in FY23 to Rs.72.14 crore in FY24 driven by increase in both domestic as well as export demand. Though there was a marginal decrease in sales realisation, yet the same was compensated by significant increase in sales volume in FY24 as compared to FY23. With increase in scale of operations resulting in better absorption of fixed overheads, SCL achieved operating breakeven with EBITDA of Rs.7.68 crore, thereby registering an EBITDA margin of 10.65% in

FY24 as against an operating loss of Rs.0.87 crore in FY23. However, due to high interest cost and depreciation provision since the company is in its initial years of operations, SCL continued to incur net loss, though the same reduced substantially from Rs.10.24 crore in FY23 to Rs.3.34 crore in FY24. Nevertheless, GCA was positive at Rs.0.15 crore in FY24 as against a cash loss of Rs.8.64 crore in FY23. The business performance of the company continued to improve in the current fiscal year with SCL registering a PBT of Rs.2.56 crore (loss of Rs.6.37 crore during 9MFY24) on a TOI of Rs.72.79 (Rs.43.47 crore during 9MFY24) during 9MFY25. Given the current scale of operations, SCL is expected to achieve net profit from FY2025 fiscal year onwards.

Key Rating Weaknesses

New debt funded capex plan; likely to put pressure on the capital structure and debt coverage indicators going forward

The company has undertaken a project of Rs.30 crore for installing a casting machine and sand plant with allied equipment to enhance the production within existing facilities. The project will be financed by way of term loan of Rs.22 crore and balance Rs.8 crore by way of preference capital/internal cash accruals. Currently the company has given only extended advance to vendor to the tune of Rs.3.65 crore which was funded through issue of fresh preference shares to KM Sugar Mills Limited. The debt has been sanctioned by Punjab National Bank and will be disbursed upon installation of the machinery. While the sand plant is likely to be installed by September 2025, the new casting machine will be commissioned in March 2026. Given the fact that SCL is yet to achieve break even at PAT level and with low net worth base, a new debt funded capex plan will put further pressure on the company’s capital structure and cash flows in the form of high interest outgo going forward. Timely installation of the new equipment coupled with ramping up of operations from the same will be critical from credit perspective.

Susceptibility of profitability to volatility in raw material prices due to lack of backward integration

Pig iron and scraps are key raw materials for the company, prices of which are volatile in nature. Raw-material cost accounts over ~70% of total cost of sales in iron and steel industry and backward integration plays vital role in the profitability. Adverse price movement of raw materials can directly affect the profitability of the SCL.

Exposure to intense competition

The industry is riddled with high competition due to presence of several domestic and international players. Intense competition from both domestic and international players is having a negative impact on the profitability of the company.

Cyclicality in the Industry

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 SCL, volatile going forward.

Analytical Approach: Credit Enhancement (CE) rating: Assessment of the credit profile of K.M. Sugar Mills Limited (KMSM), provider of proposed corporate guarantee to SCL.

Unsupported rating: Standalone

Applicable Criteria:

- Rating Methodology for Manufacturing Companies.
- Financial Ratios & Interpretation (Non-Financial Sector).
- Structured Debt Transaction (Non-Securitisation Transaction)
- Criteria for assigning Rating outlook.
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities

Liquidity – Stretched

SCL's liquidity appears to be stretched with current ratio of 0.97x as on March 31, 2024 (0.77x as on March 31, 2023). The company has incurred net loss of Rs.3.34 crore in FY24 though there was no cash loss and the company has earned cash accruals of Rs.0.15 crore in FY24. Though, SCL has not generated sufficient cash accruals from its operating actives during the year to repay its scheduled debt repayment obligations, it has always been backed by its strong group associates for repayment of its debt obligations. KMSM has infused funds to the tune of Rs.12.95 crore in FY2024 (Rs.12.50 crore in FY2023) to support SCL's business operations and honour its debt repayment obligations. KMSM further has plans to infuse another Rs.5.00 crore in SCL in the form of preference share capital in FY25, out of which Rs.3.75 crore has already been infused till February 28, 2025. SCL is expected to receive need-based funding support from its promoters and guarantor company as and when required.

About the Company

Incorporated on February 07, 2019, Sonar Casting Limited (SCL) was set up with the objective to manufacture Ductile Iron and Casting products like manhole covers, pipes etc. The company had acquired a plot of land measuring ~7.5 acres at Andal, Bardhaman district in West Bengal for setting up the manufacturing facility. The total cost of the project was around Rs.78.40 crore, which was financed through Equity capital Rs.5.50 crore, Preference share capital Rs.20.40 crore and term loans from bank of Rs.52.50 crore. The company achieved COD for one of two moulding machines in October 2020, with an installed capacity of 1000MT per month. Further, for line 2, COD was achieved in April 2021, with installed capacity of 1000MT per month.

About K M Sugar Mills Limited

KMSM is in operation from 1949 in Uttar Pradesh, engaged in the manufacturing of sugar, Industrial Alcohols and power and achieved a TOI of Rs.657.16 crore during FY2024. The company is listed on BSE and NSE.

Financials (Standalone): SCL

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	35.54	72.14
EBITDA	-0.87	7.68
PAT	-10.24	-3.34
Total Debt	106.78	119.90
Tangible Net Worth	-27.34	-32.11
EBITDA Margin (%)	-2.44	10.65
PAT Margin (%)	-28.77	-4.61
Overall Gearing Ratio (x)	-3.91	-3.73
Interest Coverage (x)	-0.11	1.00

* *Classification as per Infomerics' standards.*

Financials (KMSM – Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2023	31-03-2024	9MFY2025
	Audited	Audited	Unaudited
Total Operating Income	575.53	657.16	505.75
EBITDA	49.69	69.75	58.06
PAT	23.21	28.09	24.49
Total Debt	267.87	291.13	-
Tangible Net worth	214.54	242.49	-
Adjusted Tangible Net worth	142.00	156.21	-
EBITDA Margin (%)	8.63	10.61	11.48
PAT Margin (%)	3.96	4.22	4.79

Overall Gearing Ratio (x)	1.89	1.86	-
Interest Coverage Ratio (x)	3.59	4.22	4.29

**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 Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					March 22, 2024	December 26, 2022	September 27, 2021
1	Term Loan	Long Term	43.04 ^ (Reduced from Rs.49.30 crore)	IVR A- (CE) / Stable	IVR A- (CE) / Stable	IVR A- (CE) / Stable	IVR BBB+ (CE)
2	Cash Credit	Long Term	22.50 (Enhanced from Rs.12.00 crore)	IVR A- (CE) / Stable	IVR A- (CE) / Stable	IVR A- (CE) / Stable	IVR BBB+ (CE)
3	Bank Guarantee	Short Term	5.00 (Enhanced from Rs.2.70 crore)	IVR A2+ (CE)	IVR A2+ (CE)	IVR A2+ (CE)	IVR A2 (CE)
4	Term Loan	Long Term	22.00 (New Limit)	IVR BB- /Stable	-	-	-

^Outstanding as on December 31, 2024

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About Infomerics:

Infomerics Valuation and Rating Ltd (Infomerics) [Formerly Infomerics Valuation and Rating Pvt. Ltd] was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit

Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	December 2029	43.04 ^ (Reduced from Rs.49.30 crore)	IVR A- (CE) / Stable
Term Loan			December 2030	22.00	IVR BB-/Stable
Cash Credit			-	22.50 (Enhanced from Rs.12.00 crore)	IVR A- (CE) / Stable
Bank Guarantee	-	-	-	5.00 (Enhanced from Rs.2.70 crore)	IVR A2+ (CE)

^Outstanding as on December 31, 2024

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Sonar-Casting-25mar25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:

List of major covenants:

- Corporate Guarantee of KMSM
- Bank shall have a right to re-set the interest rate of Term Loans in case of adverse deviation by more than 20%, in respect of any two of the following five financial parameters, arrived at based on audited financial statements each year, from the estimated/projected levels accepted at the time of sanction/last review:

Parameter	Acceptable level for covenant testing
DSCR	1.79
Interest Coverage Ratio	2.35
Fixed Asset Coverage Ratio	1.25
Debt/EBITDA	2.93

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.