Press Release

Sponge Sales India Private Limited

January 03, 2025

Ratings

Instrument / Facility*	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	23.28 (enhanced from 20.00)	IVR BBB-; Stable (IVR Triple B minus with stable outlook)	IVR BB+; Stable (IVR Double B plus with stable outlook)	Upgraded	Simple
Short Term Bank Facilities	30.00 (enhanced from 26.00)	IVR A3 (IVR A three)	IVR A4+ (IVR A four plus)	Upgraded	Simple
Total	**53.28 (Rupees fifty-three crore and twenty-eight lakh only)**				

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

The upgrade in the ratings assigned to the bank facilities of Sponge Sales India Private Limited (SSIPL) consider improvement in scale of operation of the company in FY24 [FY refers to the period from April 1 to March 31] and in H1FY25 with a stable profitability, Further, the ratings also continue to consider the experience of its promoters and efficient working capital management by the company. However, these rating strengths are partially offset by its thin profit margin due to trading nature of the business with limited value addition, moderate capital structure with average debt protection matrices, susceptibility of profitability to fluctuations in key traded goods prices and presence in highly fragmented industry marked by intense competition. The stable outlook reflects that the company will continue to benefit from extensive experience of its promoters in steel industry and growing demand of iron and steel products in the domestic market.

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

– Improvement in the capital structure with improvement in overall gearing to below 1.2x and improvement in interest coverage ratio to over 2x

Downward Factors

– Significant decline in revenues and profitability leading to moderation in GCA
– Any unplanned capex and/or withdrawal of subordinate unsecured loan leading to impairment in the capital structure with moderation in overall gearing to over 2x and interest coverage to below 1x
– Increase in operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and resourceful promoters**

The operations of the company are currently being managed by Mr. Pankaj Khetan, Mr. Kuldeep Garg and Mr. Prashast Goyal. The promoters are having experience ranging between 15-30 years and are assisted by a team of professionals from various domains. Furthermore, the promoters of the company are resourceful and have been infusing funds in the company over the years.

- **Improvement in scale of operation**

SSIPL has maintained a growth in its scale of operations as the topline registered a growth from Rs.1305.05 crore in FY23 to Rs.1354.45 crore in FY24 mainly driven by rise in volume sales of traded products as the company witnessed moderation in its average sales realisation. During H1FY25, SSIPL has already managed to churn out revenue of ~Rs.798 crore.

- **Efficient working capital management**

SSIPL has a comfortable operating cycle of 13 days in FY24. Further, the working capital utilisation also remained satisfactory at ~71% for the past 12 months ended September 30, 2024, indicating sufficient liquidity buffer for the company.

Key Rating Weaknesses

- **Thin profit margin due to trading nature of business**

Owing to the low value additive trading nature of operations with low product differentiation and considering the heavy competition faced among many organised and unorganised player in this sector, the profit margins of SSIPL has remained thin over the years. Aided by growth in volume sales leading to higher absorption of fixed overheads and rise in total operating income the EBITDA margin though continued to remain thin improved from 0.98% in FY23 to 1.03% in FY24. Furthermore, the PAT margin has also improved from 0.18% in FY23 to 0.20% in FY24.

- **Moderate capital structure with average debt protection matrices**

The capital structure of the company remained leveraged over the past fiscals mainly due to its small net worth base and high working capital requirements. Considering the subordinated unsecured loan of Rs.12.51 crore and investments in group company of Rs.8.80 crore (Rs. 5.57 crore in FY23), the Adjusted Tangible Net worth (ATNW) stood at Rs.35.25 crore as on March 31, 2024 (Rs.35.79 crore as on March 31, 2023). The overall gearing ratio continues to stand moderate at 1.69x as on March 31, 2024 as against 1.55x as on March 31, 2023. Moreover, total indebtedness marked by TOL/ATNW also moderated and stood at 3.55x as on March 31, 2024, against 2.66x as on March 31, 2023. Notwithstanding, the improved absolute EBITDA, owing to increase in finance cost (due to elevated debt level), the debt protection metrics marked by interest coverage ratio has moderated to 1.18x in FY24 as against 1.34x in FY23. Total Debt to EBITDA and Total Debt to NCA also continued to remain stretched at 4.29x and 19.60 years respectively as on March 31, 2024 as against 4.33x and 20.37 years respectively as on March 31, 2023.

- **Profitability susceptible to fluctuations in key traded goods prices**

The profitability of the company is vulnerable to sharp fluctuations in prices of iron ore, which affects sales realisations. Iron ore prices have been volatile in recent years. Given the nature of the industry the Company remains susceptible to any adverse movement in traded goods prices along with high requirement of working capital.

- **Highly fragmented industry marked by intense competition**

The iron and steel industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the group's pricing flexibility and bargaining power.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.]

[Financial Ratios & Interpretation (Non-Financial Sector).]

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its expected adequate gross cash accruals in the range of ~Rs.10.54-~Rs.13.86 crore as against its debt repayment obligations in the range of ~Rs.1.39 to ~ Rs.5.35 crore during FY25-FY27. Further, on the back of its moderate capital structure, the company has adequate gearing headroom. The average fund based working capital utilisation remained moderate at ~71% during the past 12 month's period ended September 2024, which imparts satisfactory liquidity buffer.

About the Company

Incorporated back in 1994, in Mandi Gobindgarh, Punjab, Sponge Sales India Private Limited (SSIPL) is engaged in trading of iron and steel products such as sponge iron, pig iron, MS Billet, steel ingots and ferro alloys. The Company is an authorised dealer of Tata Sponge Iron Ltd., SAL Steel Limited, Aarti Steels Ltd., Welspun Steel Ltd and VISA Steel Ltd.

Financials (Standalone):

(Rs. Crore)

For the year ended / As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	1305.05	1354.45
EBITDA	12.85	13.94
PAT	2.34	2.76
Total Debt	55.66	59.75
Tangible Net worth	28.85	31.54
Adjusted Tangible Net Worth	35.79	35.25
EBITDA Margin (%)	0.98	1.03
PAT Margin (%)	0.18	0.20
Overall Gearing Ratio	1.55	1.69
Interest Coverage (x)	1.34	1.18

**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 Security/Facilities	Current Ratings (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 in 2021-22
					Dec 08, 2023	-	-
1.	Term Loan/ GECL	Long Term	3.28	IVR BBB-; Stable	-	-	-
2.	Cash Credit	Long Term	20.00	IVR BBB-; Stable	IVR BB+; Stable	-	-
3.	Bank Guarantee	Short Term	5.00	IVR A3	IVR A4+	-	-
4.	Letter of Credit	Short Term	25.00	IVR A3	IVR A4+	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) 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/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan/GECL	-	-	-	Mar 27	3.28	IVR BBB-; Stable
Cash Credit	-	-	-	-	20.00	IVR BBB-; Stable
Bank Guarantee	-	-	-	-	5.00	IVR A3
Letter of Credit	-	-	-	-	25.00	IVR A3

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Sponge-Sales-03jan25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

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.