



Press Release

S M Niryat Private Limited

February 21, 2022

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	36.00	IVR A- / Negative Outlook (IVR Single A Minus with Negative Outlook)	Long Term rating Reaffirmed and Outlook revised from Stable to Negative	Simple
Short Term Bank Facilities	4.50	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	40.50 (Forty Crore and Fifty Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The company's rating outlook has been revised to negative on account of decline in demand from China for iron ore products which has impacted the business and financial performance in 9MFY2022. Infomerics shall closely monitor the quarterly performance to assess the overall impact on the credit matrices going forward.

The aforesaid rating reaffirmation to the bank facilities of the S M Niryat Private Limited (SMNPL) derives strength from its experienced promoter, robust growth in scale of operations during past three fiscals and forward integration initiatives through. The ratings also note its strong financial risk profile marked by comfortable capital structure and strong debt protection metrics. However, these rating strengths are constrained by revenue concentration risk, exposure to risks inherent in the iron ore trading segment with intense competition in the operating spectrum, susceptibility to regulatory changes, susceptibility of operating margin to cyclical nature of business, volatile commodity price and foreign exchange fluctuations risk.

Key Rating Sensitivities:



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Upward Factors

- Consistent improvement in total operating income, profit margins and healthy liquidity position.
- Improvement in the capital structure with improvement in TOL/TNW, below 2x.
- Continued low debt repayment obligation and maintaining low operating cycle.

Downward Factors

- Further, dip in scale of operations with moderation in profitability along with moderation in operating margin below 4% and dip in cash accruals on a sustained basis
- Deterioration in overall gearing above 1x and/or significant moderation in debt protection metrics
- Any negative government regulations

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter**

The promoters of SMNPL are highly experienced with more than one and half decades of experience in trading segment. Manish Khemka, e Chairman of the company is having more than 16 years of experience in trading and logistical management for various commodities is at the helm of affairs of the company.

- **Robust growth in scale of operations, however, decline in current fiscal 9MFY22**

The total operating income of the company increased multi-fold from Rs. 246.37 crore in FY18 to Rs. 4307.72 crore in FY21 mainly driven by higher volume of trade and rise in prices of iron ore fines, with significant rise in export to China attributable to strong Chinese domestic demand. With sharp growth in total operating income, the profitability of the company has also witnessed multi-fold increase with significant improvement in absolute profit from ~Rs. 1 crore in FY18 to ~Rs. 339.06 crore in FY21 coupled with gradual increase in EBITDA margin from 2.96% in FY18 to 10.59% in FY21 and PAT margin from 0.44% in FY18 to 7.85% in FY21. Further, gross cash accruals of the company have also increased



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from Rs. 2.14 crore in FY18 to Rs. 346.02 crore in FY21. However, SMNPL's revenue has decreased to Rs. 1688.71 crore in 9MFY2022 against Rs. 2812.45 crore in 9M2021, mainly on account of decline in demand from China for iron ore products.

- **Forward integration initiatives through Subsidiary**

The promoters brought a sick steel company named as 'Nilachal Iron & Power Pvt Ltd' from ARC through SMNPL as its wholly owned subsidiary and has started an integrated steel plant with sponge iron, captive power and TMT manufacturing capacity.

- **Strong financial risk profile marked by comfortable capital structure and strong debt protection metrics**

The financial risk profile of the company remained strong attributable to its conservative capital structure and healthy profitability leading to strong debt protection metrics. The capital structure of the company remained conservative marked by insignificant long-term debt, low use of bank borrowings and healthy net worth base with an overall gearing of 0.23x as on March 31, 2021. However, the total indebtedness of the company remained moderate marked by TOL/TNW at 1.97x as on March 31, 2021. Backed by conservative capital structure coupled with gradual increase in profitability and strong cash accruals the debt protection metrics of the company witnessed sharp improvement over the past three fiscals. The interest coverage ratio and Total debt to GCA improved from 2.74x and 16.09 years respectively in FY18 to 51.45x and 0.31 years respectively in FY21. However, the commodities that SMNPL trades in is cyclical in nature, therefore, moderation in revenue and margins may be expected in the long run.

Key Rating Weaknesses

- **Exposure to risks inherent in the iron ore trading segment and susceptibility to regulatory changes**

SMNPL operates at low operating profit margin due to trading nature of its business and intense competition in the industry. The profit margins are further susceptible to volatility in price of traded goods. Hence, if the government policy is not in favour of the export of these minerals in which the company trades, it can affect the turnover and the top-line of the



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company significantly. Further, the policies and economic condition of the countries to which the company exports to may adversely affect the demand for the products that is exported.

- **Revenue concentration risk**

The company is exposed to product concentration and geographical concentration risk as majority of its revenue is derived from export of a single product iron ore to China. Hence any adverse economic scenario may hamper the revenue and profitability of the company.

- **Susceptibility of operating margin due to cyclical nature of business, volatile commodity price and foreign exchange fluctuations risk**

The commodities that SMNPL trades in is cyclical in nature, therefore, moderation in revenue and margins may be expected in the long run. Iron ore fines export trading segment is highly exposed to various market risks arising out of volatility in iron-ore prices largely influenced by international commodity prices, demand-supply dynamics and national /international macro-economic trends. Further, all the commodities that the company trades in is susceptible to volatile price movements due to international prices and foreign exchange value. Hence, volatility of commodity prices and foreign exchange fluctuation is also a significant risk.

- **Highly fragmented & competitive nature in trading business with significant price war**

The commodities trading business is highly fragmented and there are number of players of all sizes across India. Also, since the company does not own any mines, it has relatively low bargaining power to borrow from the supplier and due to number of competitors the power to bargain from the end customer is also low. Hence, the business can sustain only if it has high volume since margins are low and may improve if significant costs are under control or minimal

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

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



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Liquidity – Adequate

The company's liquidity is adequate marked by its adequate expected gross cash accruals vis-à-vis its insignificant debt repayment obligations in FY21-FY22. Further, the company has adequate gearing headroom underpinned by its conservative capital structure. Moreover, the average utilization of fund-based limits was only ~45.40% for the past 10 months ended December 2021 indicating an adequate liquidity buffer.

About the Company

SM Niryat was started as a partnership firm in 2004 and later converted into a company in 2005 as SM Niryat Pvt Ltd (SMNPL) and operated as a goods transport enterprise for minerals such as iron ore – fines, pellets, lumps etc, manganese and other minerals of various grades. The company gradually started import and export of scrap metal. The trade activities are managed from Haldia Port, Vizag Port & Paradeep Port. The promoters have bought an existing steel manufacturing company, Nilachal Iron & Power Ltd from ARC through SMNPL and has started an integrated steel manufacturing facility under it. Nilachal Iron & Power Ltd is now a wholly owned subsidiary of SMNPL.

Financials (Standalone):

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	2567.59	4307.72
EBITDA	103.36	456.23
PAT	75.88	339.06
Total Debt	30.67	106.81
Tangible Net Worth	127.05	466.11
EBITDA Margin (%)	4.03	10.59
PAT Margin (%)	2.95	7.85
Overall Gearing Ratio (x)	0.24	0.23



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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 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long term Bank Facilities	Long Term	36.00	IVR A- / Negative	IVR A- / Stable (April 01, 2021)	--	--
2.	Short term Bank Facilities	Short Term	4.50	IVR A2+	IVR A2+ (April 01, 2021)	--	--

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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.

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entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
CC/PCFC/EPC	-	-	-	25.50	IVR A- / Negative
CC/EPC	-	-	-	10.50	IVR A- / Negative
Proposed	-	-	-	4.50	IVR A2+

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/SM-Niryat-lenders-feb22.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.