Press Release

S M Niryat Private Limited

January 19, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	85.00 (Decreased from Rs.156.00 crore)	IVR A-/ Negative (IVR Single A Minus with Negative outlook)	Reaffirmed	Simple
Short Term Bank Facilities	100.00 (Increased from Rs.4.50 crore)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Long Term / Short Term Bank Facilities	40.00	IVR A-/ Negative/ IVR A2+ (IVR Single A Minus with Negative outlook/ IVR A Two Plus)	Assigned	Simple
Total	**225.00 (Rupees Two Hundred Twenty Five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of S M Niryat Private Limited (SMNPL) continues to factor in the extensive experience of the promoters in the trading of mineral ore, forward integration initiatives through its wholly owned subsidiary Nilachal Iron and Power Ltd. (NIPL; rated IVR BBB+/ Stable) and strong financial risk profile marked by comfortable capital structure and strong debt protection metrics. The ratings are, however, constrained by significant decline revenue in FY22 and H1FY23, vulnerability of its profitability to volatility in price of goods traded and foreign exchange rate fluctuation, and presence in a highly fragmented and competitive industry.

Outlook: Negative

The rating is on Negative Outlook due to expectations of further moderation in financial risk profile of the company going forward. Infomerics shall closely monitor the quarterly performance to assess the overall impact on the credit profile going forward.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained improvement in operating income above 20% on a sustained basis
- Improvement in EBITDA margin above 10% and PAT margin above 8% on a sustained basis, leading to improvement in overall financial risk profile of the company
- Significant improvement in capital structure and debt protection parameters and liquidity position of the company.

Downward Factors

- Decline in revenue and profitability leading to deterioration in debt protection metrics
- Elongation in working capital cycle above 90 days
- Deterioration in the liquidity profile of the company
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the trading of mineral ore

SMNPL is promoted by Mr. Manish Khemka and Mr. Suraj Kumar Singh. The promoters have an extensive experience of 17 years in the trading of mineral ore, mainly iron ore and coal. The promoters are actively involved in the day-to-day affairs of the company, ably supported by a well experienced second line of executives.

Forward integration initiatives through its wholly owned subsidiary Nilachal Iron and Power Ltd. (NIPL)

The promoters bought an existing steel manufacturing company named NIPL in FY18 from ARCs and NIPL's operations were subsequently revived. SMNPL infused Rs.34.95 crore into

NIPL at the time of its acquisition of the plant. Post that the promoters of SMNPL revived NIPL's plant and re-started operations. NIPL is engaged in manufacturing of sponge iron, billets and TMT bars. NIPL is essentially the group's forward integration initiative. Currently, NIPL procures imported coal from SMNPL for its manufacturing process. It also procures iron ore from the market using SMNPL's relations. NIPL also sells sponge iron and billets to SMNPL for onward sales. In FY22, 26% of NIPL's purchases were from SMNPL while 18% of its sales were to SMNPL, exhibiting synergies between the two companies.

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

Financial risk profile of SMNPL continues to remain comfortable marked by comfortable capital structure and debt protection metrics. The overall gearing ratio on net adjusted tangible networth (ATNW) has remained on similar level at 0.23x as on March 31, 2022 against 0.23x as on March 31, 2021. TOL/ ATNW improved and stood at 1.08x as on March 31, 2022 against 1.93x as on March 31, 2021. The interest coverage ratio and total debt to GCA ratio have deteriorated and stood at 21.58x and 1.05x respectively in FY22 against 77.41x and 0.31x respectively in FY21 but continued to remain comfortable.

Key Rating Weaknesses

Significant decline revenue in FY22 and H1FY23

The total operating income of the company has significantly declined by 53.13% to Rs.2019.33 crore in FY22 from Rs.4307.93 crore in FY21 due to decline in sales from China. Iron and steel manufacturing was shut down in China to control pollution levels for the winter Olympics in February 2022 which impacted SMNPL's export sales. However, SMNPL managed the decline in sales to China by trading in other commodities, especially coal and met coke in domestic market. The EBITDA margin and PAT margin declined to 8.57% and 5.89% in FY22 against 10.60% and 7.88% respectively in FY21, due to an increase in material prices. In line with the decline in profitability, the GCA has also decreased sharply to Rs.128.94 crore in FY22 against Rs.348.54 crore in FY21.

The company's H1FY23 revenue has declined by around 15% to Rs.1150.74 crore in H1FY23 against Rs.1346.48 crore in H1FY22. The EBITDA margin and PAT margin were at 8.66% and 7.28% respectively in H1FY23 against 8.83% and 6.54% in H1FY22.

Vulnerability of its profitability to volatility in price of goods traded and foreign exchange rate fluctuation

The prices of commodities that SMNPL trades in are cyclical in nature. 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 macroeconomic trends. Further, all the commodities that the company trades in are susceptible to volatile price movements due to international prices and foreign exchange value. The company is an exporter and importer of minerals/ores thus there is a natural hedge to a larger extent. Further, depending upon the market conditions, the company hedges 60-70% of the exposure and balance remains unhedged. The unhedged foreign currency exposure outstanding as of September 30, 2022 stood at Rs.204.20 crore.

Presence in a highly fragmented and competitive industry

The commodities trading business is highly fragmented and there are a number of players of all sizes across the globe. Further for all the entities in the industry, trading the same product with little product differentiation results into price driven sales. Intense competition restricts the pricing flexibility of the company in the bulk customer segment, hence the players in the industry do not have pricing power and are exposed to competition inducing pressure on profitability margins.

Analytical Approach: Standalone

Applicable Criteria:

Policy of default recognition

Criteria of assigning rating outlook

Rating methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector

Liquidity: Adequate

The liquidity is expected to remain adequate given the satisfactory cash accruals expected against the low scheduled repayments in FY23-25. The free cash and cash equivalents stood at Rs.4.80 crore as on March 31, 2022. SMNPL's operating cycle was at 56 days in FY22 against 39 days in FY21. The company extends credit of 35 days to its customers, maintains inventory of 60 days and receives credit of 30-60 days from its suppliers. Accordingly, in FY22 its average collection period was 13 days, average inventory period was 99 days while average creditor period was 56 days against 4 days, 57 days and 39 days respectively in FY21. The deterioration was on account of changes in the customer base and product mix as there was decline in orders from China. However, SMNPL managed the slowdown in sales by trading in other commodities, especially coal and met coke in domestic market. Further average utilisation of its fund based working capital limits was 49% in the for 12 months period ending November 2022. SMNPL has projected an increase of fixed assets of Rs.30.00 crore in FY23, Rs.20.00 crore in FY24 and Rs.20.00 crore, which is expected to be entirely funded from internal accruals.

About the company

SMNPL was started as a partnership firm in 2004 and later converted into a company in 2005 named SM Niryat Private Limited. It used to operate as a goods transport enterprise for minerals such as iron ore – fines, pellets, lumps, manganese and other minerals of various grades, coal etc. The company gradually started import and export of scrap metal. The trading activities are managed from Haldia Port, Vizag Port and Paradeep Port. SMNPL is promoted by Mr. Manish Khemka, who is also the Chairman of the company. Mr. Suraj Kumar Singh is the other director in the company.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	4307.93	2019.33
EBITDA	456.53	173.07
PAT	340.67	119.43
Total Debt	106.81	135.94
Adjusted Tangible Net worth	460.70	581.23
Ratios		
EBITDA Margin (%)	10.60	8.57
PAT Margin (%)	7.88	5.89
Adjusted Overall Gearing Ratio (x)	0.23	0.23

*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 2022-23)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**	**Date(s) & Rating(s) assigned in 2019-20**
1.	Cash Credit	Long Term	85.00	IVR A-/ Negative	• IVR A-/ Negative (March 10, 2022) • IVR A-/ Stable (April 1, 2021)	-	-
2.	Inland Bill Negotiation	Short Term	25.00	IVR A2+	-	-	-
3.	Post shipment credit	Short Term	5.00	IVR A2+	-	-	-
4.	Export packing credit	Short Term	15.00	IVR A2+	-	-	-
5.	Letter of credit	Short Term	55.00	IVR A2+	-	-	-
6.	Proposed cash credit / export packing credit	Long Term / Short Term	40.00	IVR A-/ Negative/ IVR A2+	-	-	-
7.	Export packing credit	Long Term	-	-	• IVR A-/ Negative (March 10, 2022)	-	-
8.	CC/PCFC/EPC	Long Term	-	-	• IVR A-/ Negative (March 10, 2022) • IVR A-/ Negative (February 21, 2022)	-	-
9.	PSC	Long Term	-	-	• IVR A-/ Negative (March 10, 2022)	-	-
10.	Proposed CC/EPC	Long Term	-	-	• IVR A-/ Negative (March 10, 2022)	-	-
11.	Proposed Working capital	Short Term	-	-	• IVR A2+ (March 10, 2022) • IVR A2+ (February 21, 2022) • IVR A2+ (April 1, 2021)	-	-

Sr. No.	Name of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
12.	CC/EPC	Long Term	-	-	• IVR A-/ Negative (February 21, 2022)	-	-
13.	EPC/PCFC	Long Term	-	-	• IVR A-/ Stable (April 1, 2021)	-	-

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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

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	85.00	IVR A-/ Negative
Inland Bill Negotiation	-	-	-	25.00	IVR A2+
Post shipment credit	-	-	-	5.00	IVR A2+
Export packing credit	-	-	-	15.00	IVR A2+
Letter of credit	-	-	-	55.00	IVR A2+
Proposed cash credit / export packing credit	-	-	-	40.00	IVR A-/ Negative/ 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/Len-SM-Niryat-jan23.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.