



Press Release

Sanvijay Alloys and Power Limited (SAPL)

October 3rd, 2022

Ratings

Instruments	Amount (INR. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facility– Cash Credit	50.00	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facility – Term Loan	185.00	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Assigned	Simple
Short Term Non Fund Based Facility – Bank Guarantee	5.00	IVR A2+ (IVR A Two Plus)	Assigned	Simple
Total	240.00 (Two Hundred and Forty Crore)			

Details of instruments are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sanvijay Alloys and Power Limited (SAPL) derives comfort from its experienced promoters group with an established track record in the steel industry, forward integrated manufacturing facility along with benefit of receiving the subsidy, Improving operating income in FY22 post the strategic development, comfortable financial risk profile, expected synergy benefit arising from the acquisition accompanied with the proposed capex plan . However, the rating strengths are partially offset by susceptibility of operating margin to volatility in raw material prices, intense competition along with cyclicity in the steel industry.

The Board of Directors of Om Sairam Steels and Alloys Private at its meeting held on August 27th, 2021 approved the Investments made in Sanvijay Alloys and Power Limited by way of transfer of shares amounting to enterprise valuation of INR300.00 Crore.

Key Rating Sensitivities

Upward Factors



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- Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics.

Downward Factors

- Any decline in revenue and/or profitability impacting the debt protection metrics or liquidity

Key Rating Drivers with detailed description

Key Rating Strengths-

Experienced promoters group with an established track record in the steel industry

SAPL has been taken over by Omsairam, the promoters of the Omsairam group possess vast experience in the manufacturing and trading of steel products. They have an established track record of setting up and implementing the steel projects within scheduled timeline. Promoters of the group are carrying over more than three decades of experience in steel trading and manufacturing. Over the last decade, the group has expanded its depth presence in state of Maharashtra which has given overall competitive advantage to the group. The group is well supported by the team of qualified and dedicated professionals.

Expected synergy benefit arising from the acquisition accompanied with proposed capex plan

SAPL is in the business of manufacturing Sponge Iron which is one of the Raw Materials used for manufacturing of Billets. OSAPL is in this business of manufacture of Billets and TMT bars. Thus, the final product of SAPL is the raw material for OSAPL and it is purely backward integration of unit. Thus, OSAPL would procure Sponge Iron from SAPL. OSAPL have benefit of assured quality of product and saving in logistic cost. Moreover, SAPL has 33 MW power plant which will transmit additional power to OSAPL. OSAPL would benefit from low cost power generated by SAPL under captive use arrangement with SAPL.

The company proposes to set up Ferro Alloys Unit of 16.5 MVA * 2 units (Total 33 MVA). The cost of expansion is INR84.30 Crore which is proposed to be funded through Term Loan of Rs. 60 Crores and Balance INR24.30 Crore from Promoter contribution.

Forward integrated manufacturing facility along with benefit of receiving the subsidy



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SAPL operation is integrated with 8 MW captive waste heat recovery power plant and additionally SAPL has also installed 25 MW—plant, therefore as on date SAPL has in all 33 MW power plant. Access to captive power also plays a vital role in terms of operational integration with its energy intensive nature of manufacturing that leads to cost optimization. Moreover, SAPL is eligible for receiving the subsidy, under mega projects scheme.

Improving operating income in FY22 post the strategic development.

Total operating income of SAPL has increased in FY22 at INR407.77 Crore (FY21: INR177.63 Crore). The company observed y-o-y decline in performance in FY21 and FY20 due to slowdown in the steel industry leading to decline in volume sales as well as sales realisation of all the products manufactured by the company, i.e., sponge iron, structural steel products, bars, etc. Also, the sudden outbreak of COVID 19 pandemic and the subsequent lockdown added to the decline in operating income in FY20. Now, after takeover the performance of the company has revamped and has shown substantial improvement in its top line and bottom line. Wherein the EBITDA margin of the company stood at 14.27% in FY22 as compared to 12.67% in FY21 and PAT margin of the company stood at 10.77% in FY22 and 1.55% in FY21.

Comfortable financial risk profile

The financial risk profile of SAPL is marked by comfortable capital structure backed by its comfortable net worth. The net worth of the company stood at INR146.07 Crore in FY22 (INR101.98 Crore as on March 31, 2021). Overall gearing remained moderately comfortable at 1.61 as on March 31, 2022 (2.92x as on March 31, 2021). Interest coverage ratio remained comfortable at 8.43x in FY22 as compared to 2.29x in FY21 which got improved backed by increase in EBITDA and decline in finance cost. However, total indebtedness of the company marked by TOL/TNW remained moderately comfortable at 1.89x as on March 31, 2022 (3.21x as on March 31, 2021) backed with the takeover of unsecured loan taken up the OSAPL

Key Rating Weaknesses-

Susceptibility of operating margin to volatility in raw material prices

The degree of integration defines the ability of the company to improvise its operational efficiency and withstand cyclical downturns generally witnessed in the steel industry. SAPL procures coal from WCL (Western Coal Fields Limited) and iron-ore from NMDC (National Mineral Development Corporation) as the company has long term raw material procurement



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contract with WCL and NMDC. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices. Further steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition along with cyclicity in the steel industry

The steel manufacturing businesses is characterized by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players. The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has taken the consolidated approach wherein the financial profiles of Omsairam Steels and Power Private Limited (OSAPL) and Sanvijay Alloys and Power Limited (SAPL) has being combined and be collectively referred as Omsairam group. The consolidation is on account of common management along with significant operational & financial linkages.

Additionally, OSAPL holds 80% Shareholding in SAPL and has given Corporate Guarantee for the debt of SAPL.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria on Consolidation of companies](#)

[Criteria of rating outlook](#)

Liquidity: Adequate

The company has been earning comfortable level of Gross Cash Accrual (GCA) for the last three years ended FY22 and the same is expected to improve further with an increase in scale of operation & rationalisation of cost. The company maintains adequate cash and bank balance to meet its liquidity requirement and the current ratio also remains comfortable at



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1.33x in FY22. Further, the overall working capital utilisation of the company stood comfortable ~82% for the last 12 months ended July 2022.

About the Companies

Sanvijay Alloys and Power Limited (SAPL) –

SAPL was incorporated on August 21, 2003 and is in the business of manufacturing sponge iron and generating power. The company was previously known as Grace Industries Limited, the name was changed to SAPL dated 23 March 2020. The management of SAPL has been changed to OSAPL by virtue of transfer of shares wherein OSAPL holds 80% Shareholding in SAPL.

Omsairam Steels and Alloys Private Limited (OSAPL) –

OSAPL was incorporated on August 14, 2003 as a Private Limited Company and is a part of Omsairam Group is a Jalna, Maharashtra, established by Bharuka Family is engaged in steel manufacturing and trading. Flagship Company of the Group is M/s Omsairam Steels & Alloys Pvt. Ltd. OSAPL sells the TMT bars under the brand name “UMA 500 TMX”. The TMT bars are manufactured in its rolling division by using its own MS Billets manufactured in its melting division and with hot rolling technology.

Financials: Standalone (SAPL) (INR. Crore)

For the year ended/ As On*	31-03-2021 (Audited)	31-03-2022 (Provisional)
Total Operating Income	176.12	407.77
EBITDA	22.31	58.19
PAT	2.75	43.92
Total Debt	297.74	235.39
Tangible Net-worth	101.98	146.07
EBITDA Margin (%)	12.67	14.27
PAT Margin (%)	1.55	10.77
Overall Gearing Ratio (x)	2.92	1.61

**Classification as per Infomerics' standards*

Financials: Standalone (OSAPL) (INR. Crore)

For the year ended/ As On*	31-03-2021 (Audited)	31-03-2022 (Provisional)
Total Operating Income	791.80	1316.06
EBITDA	73.24	110.00
PAT	38.50	66.28
Total Debt	84.98	250.60



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Tangible Net-worth	165.86	232.14
EBITDA Margin (%)	9.25	8.36
PAT Margin (%)	4.86	5.02
Overall Gearing Ratio (x)	0.51	1.08

**Classification as per Infomerics' standards*

Financials: Consolidated – Not Available

As FY23 will be first full year of operation post takeover of shares by OSAPL in SAPL wherein SAPL will be subsidiary company of OSAPL.

Full Consolidated balance sheet will be available from FY23 onwards.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (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	Long Term Fund Based Facility– Cash Credit	Long Term	50.00	IVR A- /Stable Outlook	--	--	--
2	Long Term Fund Based Facility – Term Loan	Long Term	185.00	IVR A- /Stable Outlook	--	--	--
3	Short Term Non Fund Based Facility – Bank Guarantee	Short Term	5.00	IVR A2+	--	--	--

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About Infomerics:

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



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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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most 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
Cash Credit	--	--	--	50.00	IVR A-/Stable Outlook
Term Loan	--	--	--	185.00	IVR A-/Stable Outlook
Bank Guarantee	--	--	--	5.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Extent of Consolidation
Omsairam Steels and Power Private Limited [OSAPL]	Full*
Sanvijay Alloys and Power Limited [SAPL]	Full*



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**Intercompany transaction has been adjusted as per Infomerics standard while preparing the projections from FY23 onwards.*

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Sanvijay-Alloys-oct22.pdf>

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.