Press Release

Satyam Iron & Steel Co Private Limited
October 22, 2024

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	420.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	-	Assigned	Simple
Short-Term Bank Facilities	30.00	IVR A3+ (IVR A Three Plus)	-	Assigned	Simple
Total	**450.00 (INR Four Hundred fifty crore 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 ratings assigned to the bank facilities of Satyam Iron & Steel Co Private Limited (SISCPL) drives comfort from long-proven operational track record of SISCPL under experienced promoters besides locational advantage of the manufacturing unit with semi-integrated nature of operation. The ratings also positively note the stable business performance of the company over the past three fiscals including in FY24 (Provisional) [FY refers to the period from April 1 to March 31] coupled with comfortable capital structure and average debt protection metrics. However, these rating strengths remain constrained by the project execution and stabilization risk coupled with the susceptibility of profitability to volatility in raw material prices. The ratings also factor the intense competition and SISCPL's exposure to cyclicality associated with the steel industry.

The stable outlook reflects expected stable business performance of the company in the near term marked by healthy demand of steel products coupled with expected improvement in operating margin.

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 1x and interest coverage ratio to above 4x
- Improvement in operating cycle leading to improvement in liquidity

Downward Factors

- Moderation in operating income and/or profitability impacting the debt protection metrics on a sustained basis
- Any unplanned debt funded capex and/or substantial increase in working capital borrowings leading to impairment in capital structure with overall gearing ratio moderated to over 2x and/or moderation in interest coverage to below 1.5x
- Moderation in the operating cycle to over 110 days leading to stretch in liquidity
- Any significant delay in commissioning the ongoing capex

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Long operational track record with extensive experience of promoters**

SISCPL has more than two decades of operational track recorded controlled and managed by Mr. Gopal Kunar Agarwal supported by second-generation entrepreneur his son Mr. Rahul Kumar Agarwal. Mr. Gopal Kunar Agarwal has long standing experience of nearly three decades in the steel industry which has helped the company to strengthen its market presence and forge strong relations with suppliers and customers.

- **Locational advantage with integrated operations**

SISCPL's manufacturing facility is located in Raniganj, West Bengal, which is one of the coal rich industrial belts of India and has proximity to various raw materials namely iron ore pellets, pig iron and iron scrap. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Further, SISCPL has semi-integrated operations including a captive power plant and a billet manufacturing unit supported by backward integrated sponge iron unit, thereby supporting the overall business profile.

- **Stable business performance in FY2024**

Total operating income (TOI) of SISCPL has grown at a CAGR of ~51% over the past three years as the scale of operation has gone up from Rs.155.36 crore in FY21 to Rs.349.43 crore in FY23 which further improved to ~Rs.537.19 crore in FY24 (Provisional). Post successful completion of the capacity expansion capex by setting up induction farness, rolling mills and captive power plant, SISCPL during FY24 has operated as an integrated steel plant with full capacity apart from the power plant which was partly operational. Moreover, the increase in topline in FY24 (Prov.) is driven by better sales volume backed by higher production coupled with slightly improved sales realization. On the back of an improved topline, the absolute EBITDA has improved and stood at Rs.35.10 crore in FY24 (Prov.) as compared to Rs.19.51 crore of FY23. The operating margin of the company, which stood at 5.58% in FY23 improved to 6.53% in FY24 (Prov.) on the back of better overhead recovery led by better capacity utilisation. However, owing to significant increase in finance costs attributable to elevated debt level on account of ongoing capex, the PAT margin of the company has moderated, yet stood satisfactory at 2.42% in FY24 (Prov.) as compared to 3.97% in FY23. Till August 2024, SICSPL has churned out revenue of ~Rs.269 crore with improved operating margin. Will fully operational captive power plant the operating margin is expected to improve in the near term.

- **Satisfactory capital structure with average debt protection metrics**

The capital structure of the SISCPL remained satisfactory over the past three account closing dates. To support the growing business, SISCPL has availed additional working capital in FY24 resulting in an elevated debt level which stood at Rs. 244.54 crore as on March 31, 2024 (Prov.), against Rs.157.34 crore as on March 31, 2023. However, supported by healthy net worth of Rs.169.80 crore as on March 31,2024 (Prov.), long term debt to equity and overall gearing of the company remains comfortable at 0.81x and 1.44x respectively as on March 31, 2024 (Prov.). Overall indebtedness marked by TOL/TNW also stood satisfactory at 1.49x as on March 31, 2024 (Prov.). Notwithstanding the increase in absolute EBITDA in FY24, affected by the increase in finance cost, debt protection metrics marked by interest coverage ratio moderated to 1.96x in FY24 (Prov.) as compared to 6.43x in FY23. Other debt protection parameters like total debt to EBITDA and total debt to NCA remained stretched at 6.97x and 15.24 years respectively as on March 31, 2024 (Prov.).

Key Rating Weaknesses:

- **Project execution risk**

SISCPL has proposed to set up a new integrated manufacturing unit in Bardhhaman, West Bengal with an estimated project cost of ~Rs. Rs.225.19 crore which is to be funded partly by external borrowings in the form of Term loan of Rs.150 crore and rest ~Rs.75 crore through internal accruals. Financial closure is already achieved and term loan amounting to ~Rs.8.59 crore is disbursed till June 30, 2024. The capex is under process and its under initial establishment phase. Till June 30, 2024, total cost incurred is ~Rs.21.94 crore. The schedule

COD for the project is May 2026. Commencement of operation of the new unit without any significant time and cost overrun is a key rating monitorable.

- **Susceptibility of profitability to volatility in raw material prices**

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. Major raw material required for the company is sponge iron which it procures from various traders. Raw material cost accounted over ~80-85% of cost of production in the last three fiscals. Since raw material is the major cost driver, the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macroeconomic factors.

- **Exposure to intense competition**

The Indian secondary steel industry comprises many small to medium steel manufacturers along with large and established players and is characterised by high degree of fragmentation. The presence of many players with lower product differentiation limits pricing power of the company.

- **Exposure to cyclicality associated with the steel industry**

The domestic steel industry is cyclical in nature which is likely to impact the cash flows of the steel players. The steel industry is cyclical in nature and has witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. The company's operations are thus vulnerable to any adverse change in the demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Criteria of assigning Rating Outlook

Policy on Default Recognition and Post-Default Curing Period

Financial Ratios & Interpretation (Non-Financial Sector)

Complexity Level of Rated Instruments/Facilities

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its expected adequate net cash accruals to meet its scheduled debt repayment obligation during FY25-

FY27. SISCPL also has satisfactory gearing headroom on the back of its satisfactory capital structure, supported by a comfortable current ratio of 1.36x as on March 31, 2024 (Prov.). The average working capital utilization of the company also remained comfortable ~71% for the past twelve months ended August 2024 suggesting adequate liquidity buffer. However, any unplanned capex or stretch in average collection period may impact the liquidity position of the company to some extent.

About the Company

West Bengal based Satyam Iron & Steel Co Private Limited (SISCPL) promoted by Mr. Gopal Kumar Agarwal was incorporated in 2000. The company is engaged in manufacturing MS Strip, Billet and sponge Iron and the manufacturing unit is located at Mangalpur Industrial Area, of Raniganj. During the year 2021 to 2023, SISCPL has diversified its activities and concluded expansion of the project and presently operating as an integrated steel plant with installed capacity of 120000 MTPA of Sponge Iron, 135000 MTPA of Billet, 60000 MTPA of MS Strips and a 15 MW captive power plant. SISCPL has further proposed to set up new manufacturing unit in another location of Paschim Bardhhaman. The operations of the company are looked after by Mr. Mr. Gopal Kumar Agarwal having an experience of more than three decades in the steel industry along with her wife Mrs. Urmila Devi Agarwal and son Mr. Rahul agarwal the other two directors of the company. The directors are well supported by a team of experienced professionals.

Financials of Satyam Iron & Steel Co Private Limited: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	349.43	537.19
EBITDA	19.51	35.10
PAT	13.92	13.05
Total Debt	157.34	244.54
Tangible Net worth	154.17	169.80
EBITDA Margin (%)	5.58	6.53
PAT Margin (%)	3.97	2.42
Overall Gearing Ratio (x)	1.02	1.44
Interest Coverage	6.43	1.96

**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. Cr.)	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
1.	Term loan	Long Term	278.08*	IVR BBB/ Stable	-	-	-
2.	Cash Credit	Long Term	90.00	IVR BBB/ Stable	-	-	-
3.	Cash Credit (Proposed)	Long Term	30.00	IVR BBB/ Stable	-	-	-
4.	Fund Based (Proposed)	Long Term	21.92	IVR BBB/ Stable	-	-	-
5.	Bank Guarantee	Short Term	17.00	IVR A3+	-	-	-
6.	Bank Guarantee (Proposed)	Short Term	13.00	IVR A3+	-	-	-

Outstanding/Partly disbursed as on July 31,2024

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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	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Term Loan	-	-	Sep 2034	278.08	IVR BBB/ Stable
Long Term Fund Based Limits –Cash Credit	-	-	-	90.00	IVR BBB/ Stable
Long Term Fund Based Limits –Cash Credit (Proposed)	-	-	-	30.00	IVR BBB/ Stable
Long Term Fund Based Limits – (Proposed)	-	-	-	21.92	IVR BBB/ Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	17.00	IVR A3+

Short Term Non-Fund Based Limits – Bank Guarantee (Proposed)	-	-	-	13.00	IVR A3+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Satyam-Iron-oct24.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