



Press Release

Smartgen Infra Private Limited

Oct 26, 2023

Ratings

Instrument Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities –	3.57	IVR BBB- with Stable Outlook (IVR Triple B minus With Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	77.00	IVR A3 (IVR A Three)	Assigned	Simple
Long/Short Term Bank Facilities (Proposed)	33.43	IVR BBB- with Stable Outlook & IVR A3 (IVR Triple B minus With Stable Outlook and IVR A three)	Assigned	Simple
Total	114.00	One Hundred and Fourteen Crores Only		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long-term rating of IVR BBB Minus with a Stable outlook and short-term rating of IVR A3 for the bank loan facilities of Smartgen Infra Private Limited.

The ratings assigned to the bank facilities of Smartgen Infra Private Limited (SIPL) derive comfort from company's long track record of operation along with established relationships with customers, substantial improvement in revenue of range bound EBITDA margin along with comfortable order book, diversified revenue stream coupled with interlinkages within each segments leading to better synergies and efficiencies. However, the rating strengths are partially offset by competitive and regulated industry, profitability susceptible to volatility in input prices and pending litigation with the GST Department.

The stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that the company's business & financials risk profile will be maintained over the over the medium term. The company has good order book which provides revenue visibility in short to medium term.



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IVR has principally relied on the standalone audited financial results of Smartgen Infra Private Limited upto 31 March 2023 and Projected Financials for FY24, FY25 and FY26 and publicly available information/ clarifications provided by the entity's management.

Key Rating Sensitivities:

Upward Factors

- Substantial or sustained improvement in the scale of operations, leading to an improvement in the credit metrics.
- Improvement in operating cycle backed with improvement in receivable days.

Downward Factors

- Elongation of the working capital cycle, due to stretched receivables, leading to deterioration in the liquidity position.
- Significant deterioration in the operating income or profitability of the company
- unfavourable order in the ongoing litigation would be Negative for the ratings.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long Track Record of operation along with established relationships with customers:

The company has been in the coal trading business since 2013. Furthermore, the promoters of the company have an experience of more than one and a half decade in the industry. The company's longstanding presence in the market has enabled it to build strong relationships with its clients and has also helped it to diversify into other related activities. Moreover, SIPL has a strong and growing customer base among domestic players. The customer profile of the company includes Tamilnadu Generation and Distribution Corporation Limited (TANGEDCO), Tamilnadu Newsprint and Papers Limited (TNPL), IL&FS Tamilnadu Power Company Limited (ITPCL) (operated by Banks appointed Resolution Professional); Dalmia Cements Ltd etc. The long-standing relationships with some of the clients exceeds 8 years, which translates into repeat of business for the company.



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Comfortable order book:

The order book position at SIPL is comfortable, with orders on hand for steam coal is about Rs.367 crores; aluminium products about Rs.120 crores and Infra related Rs.655 crores. The expected orders during the FY24 for steam coal is about Rs.1025 crores and Rs.900 crores from aluminium products.

Healthy profitability margins:

EBITDA margins of the company has been improving in last three years ended FY23. It has booked EBITDA margin of 5.18% in FY23 (FY22:4.49%; FY21:5.05%). Marginal dip in FY22 was on account of volatile revenue mix coupled with disruptions in the First Quarter of FY22 due to onset of Global Covid-19 pandemic. The EBITDA margin is expected to remain at the current level in the projected period. The PAT margin also improved to ~2.64% in FY23 (FY22: 2.19% and FY21: 1.49%).

Comfortable capital structure and debt coverage indicators:

As on March 31, 2023 (A) the total gearing of the Company has improved to 0.13x as against 1.08x as on March 31, 2022 due to the accretion of profits to the business and infusion of preference capital of Rs 50 crores. During the FY23 Company has issued bonus shares of Rs.10.00 Crs to the existing promoter shareholders and issued preference shares of Rs.50.00 Crs to identified investors outside the promoters group. Further, ISCR of the Company has increased significantly to 3.98x in FY23 from 2.38x in FY22. DSCR of the Company is expected to remain comfortable in next 2 years due to relatively lower principal debt repayments against expected cash flows.

Key Rating Weaknesses



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Competitive and Regulated Industry:

The coal trading is highly fragmented, with a large number of players, due to the low entry barriers. This has restricted the growth in the company's margins in these segments. Also, the industry is highly regulated, with the ministry of coal governing its operations in the country. Any adverse regulations would impact the operations of the company.

Profitability susceptible to volatility in fuel price:

The profitability of the Company is susceptible to volatility in fuel prices as it generally enters into a fixed price contract. However, the margin/surcharge for bunker cost calculation is taken into account in the pricing of the contract.

Pending Litigation :

On 24 Sep 2020, the Directorate General of GST Intelligence filed a case against the Company for alleged irregular utilisation of input tax credit on alleged false invoicing to the tune of Rs.140.00 Crs (as per news article) and availing input tax credit of Rs.14.95 Crs and had attached the bank account of the Company to safeguard government revenue. Later the Company filed a writ petition in Telangana High court for release of the same and HC ordered DGGI to release the attached account on the provision of furnishing Bank Guarantee of Rs.8.65 Crs and blocking of input tax credit in the amount of Rs.5.05 Crs available in the credit ledger on the GST Portal. The Company complied with the order of Telangana HC and No further action is seen in the matter.

In Dec 2022, around Rs.5.26 Crs of the input tax credit was unblocked by the GST department but the same remained unutilised. However, the litigation is still pending in court.

Analytical Approach: Standalone

Applicable Criteria :



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[Rating Methodologies for Trading Entities](#)
[Financial Ratios & Interpretation Non- Financial Sector](#)
[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The liquidity is expected to remain adequate owing to sufficient cashflow in meeting its repayment obligation which is further reflected in its comfortable order book position, providing revenue visibility for the medium term. Also, the average working capital utilization stood at ~71% for the last 12 months ended July 31, 2023, thereby providing buffer in terms of its undrawn limit.

About the Company

SIPL is engaged primarily in Trading of Imported Coal in bulk, metals and in infrastructure related activities, with consistent track record of performance having reported annual gross revenues of about INR 1459.61 crores in FY23. The customer profile of the entity includes government owned premier power generating units with annual supply of about 1.0 million metric tons and served these customers braving the pandemic and thus earned goodwill as one of the most reliable suppliers. On the infrastructure front, SIPL also executed prestigious government contracts in south india. SIPL has entered into metal trading for the last two years and now trading in Aluminum Wire to various customers in South and East India. The present Authorised / Paid-up capital is INR 80 crores and net worth is Rs.148.01 crores.

Financials (Standalone):

	(Rs. crore)	
For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	463.24	1459.61
EBITDA	20.77	75.66
PAT	10.22	38.55
Total Debt	64.36	19.76
Tangible Net worth*	59.49	148.01
EBITDA Margin (%)	4.48%	5.18%
PAT Margin (%)	2.19%	2.64%
Overall Gearing Ratio (x)	1.08x	0.13x

**as per Infomerics standards*



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Status of non-cooperation with previous CRA : Nil.

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan (CEL)	Long Term	0.57	IVR BBB- with Stable Outlook (IVR Triple B minus With Stable Outlook)	-	-	-
2	Cash Credit	Long Term	3.00	IVR BBB- with Stable Outlook (IVR Triple B minus With Stable Outlook)			
3	BG/LC	Short Term	77.00	IVR A3 (IVR A Three)			
4	BG/LC	Long/Short Term (Proposed)	33.43	IVR A3 (IVR A Three)			

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About Infomerics:



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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 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
Long term Bank Facilities – Term Loan (CEL)	-	-	-	0.57	IVR BBB- with Stable Outlook (IVR Triple B minus With Stable Outlook)



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Long term Bank Facilities – Cash Credit				3.00	IVR BBB- with Stable Outlook (IVR Triple B minus With Stable Outlook)
Short term Bank Facilities – LC/BG				77.00	IVR A3 (IVR A Three)
Long/Short term Bank Facilities – LC/BG (Proposed)				33.43	IVR A3 (IVR A Three)

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-smartgen-oct2023.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