



Press Release

Sonar Casting Limited

December 26, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings#	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loans	52.10	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook]	Revised	Simple
Long Term Bank Facilities – Cash Credit	15.75	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook]	Revised	Simple
Short Term Bank Facilities – Bank Guarantee	2.70	IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement)]	Revised	Simple
Total	70.55	(Rupees Seventy crore and Fifty Five Lakh Only)		

#CE rating based on fully backed by an unconditional and irrevocable Corporate Guarantee of K M Sugar Limited.

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sonar Casting Limited (SCL) is based on the strength of the unconditional & irrevocable Corporate Guarantee given by K M Sugar Mills Limited (KMSM) [Group Concern] to the bank facilities of the company (SCL).

For assigning the ratings, Infomerics has assessed the attributes of the guarantees issued by KMSM in favour of the lenders who have extended the said facilities.

This corporate guarantee results in credit enhancement in the rating of the said bank facilities to IVR A- (CE)/ Stable Outlook [IVR Single A Minus (Credit Enhancement) with Stable Outlook] and IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement) against the unsupported rating of IVR B+; Stable (IVR B Plus with Stable Outlook).



Press Release

Further, the rating continues to derive strength from Experienced Promoters backed by Strong Management Team, Locational advantage and Corporate Guarantee from KMSM. The rating is however constrained by Susceptibility of Profitability to Volatility in Raw Material Prices due to Lack of Backward Integration and Cyclicalities in the Steel Industry.

The Revision in the standalone rating reflects overall decline in operating & financial performance of the company in FY22.

Key Rating Sensitivities:

Upward Factors

- Sustained & Significant improvement in revenue & profitability margins leading to improvement in the debt protection parameters and/or improvement in financial risk profile of the corporate guarantor may lead to a positive rating action.

Downward Factors

- Any deterioration in revenue and/or profitability margin leading to deterioration in debt coverage indicators and/or deterioration in the financial risk profile of the corporate guarantor may lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters backed by Strong Management Team

SCL is currently managed by the promoter directors Mr. Aditya Jhunjunwala, Mr. Subhash Chandra Agarwal and Mr. Rajiv Gupta who have considerable business experience. Further, they are well supported by a team of experienced and qualified professionals in managing the affairs of the company.

Locational advantage

The manufacturing facility of SCL has been set up at Andal, West Bengal, which is in close proximity to various manufacturers of steel products. Further, the key raw material required by SCL i.e., pig iron and scraps are easily available in and around Andal from areas like Durgapur, Anansol, Dhanbad etc. thereby reducing freight cost. This apart, easy availability of cheap power from India Power and well established connectivity by rail and road, also an added advantage.



Press Release

Corporate Guarantee from KMSM

KMSM, the group concern of SCL, has extended corporate guarantee for the bank facilities availed by SCL. KMSM is in operation from 1949 in Uttar Pradesh, engaged in the manufacturing of sugar, Industrial Alcohols and power and achieved a turnover of ~Rs.548 crore during FY22. The company is listed on BSE and NSE. Going forward, Infomerics believes timely, need based financial support will also be extended by the corporate guarantor, in case of pressure on cash flows of SCL.

Key Rating Weaknesses

Susceptibility of Profitability to Volatility in Raw Material Prices due to Lack of Backward Integration

Pig iron and scraps are key raw materials for the company, prices of which are volatile in nature. Raw-material cost accounts over 70% of total cost of sales in iron and steel industry and backward integration plays vital role in the profitability. Adverse price movement of raw materials can directly affect the profitability of the SCL.

Cyclicality in the Steel Industry

The steel industry is characterised by its inherent cyclicality. The industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. This is likely to keep the profitability and cash flows of all the players in the industry, including SCL, volatile going forward.

Analytical Approach:

Credit Enhancement (CE Rating): Being the Group Company of K M Sugar Mills Limited (KMSM), KMSM has given unconditional & irrevocable corporate guarantee for the debt of Sonar Casting Limited (SCL).

Unsupported rating: Standalone



Press Release

Applicable Criteria:

[Criteria of Rating Outlook | Infomerics Ratings](#)

[Rating Methodology for Manufacturing companies](#)

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

[Rating methodology for Structure Debt Transaction \(Non-securitisation transaction\)](#)

Liquidity – Stretched

SCL's liquidity appears to be stretched with current ratio of 0.98x as on March 31, 2022 (1.53x as on March 31, 2021). Gross Cash Accruals (GCA) of the company stood negative in FY22. Though, SCL has not generated sufficient cash accruals from its operating actives during the year, required to repay its scheduled debt repayment obligations, it has always been backed by its strong group associates for repayment of its debt obligations. KMSM has infused funds to the tune of Rs.20.40 crore as on March 31, 2022 in form of preference share capital and has also extended unconditional and irrevocable Corporate Guarantee for the bank facilities of SCL aggregating to Rs.70.95 crore.

About the Company

Incorporated on February 2019, Sonar Casting Limited (SCL) was set up with the objective to manufacture Ductile Iron & Casting products like manhole covers, pipes etc. The company has acquired a plot of land measuring ~7.5 acres at Andal, Bardhaman district in West Bengal for setting up the manufacturing facility. The total cost of the project is around Rs.78.40 crore, which is financed through Equity capital Rs.5.50 crore, Preference share capital Rs.20.40 crore and term loans from bank of Rs.52.50 crore. Company has achieved COD for one of two moulding machines in October 2020, with installed capacity of 1,000 MT per month and have achieved production of 3,221 MT in FY21. Company achieved COD of line 2 in April 2021, having installed capacity of 1,000 MT per month.

SCL is currently managed by the promoter directors Mr. Aditya Jhunjhunwala with other two directors, who have considerable experience in the related industry. They are supported by a team of experienced and qualified professionals in managing the affairs of the company.



Press Release

About K M Sugar Mills Limited

KMSM is in operation from 1949 in Uttar Pradesh, engaged in the manufacturing of sugar, Industrial Alcohols and power and achieved a turnover of ~Rs.500 crore during FY21. The company is listed on BSE and NSE

Financials (SCL – Standalone)*:

	(Rs. Crore)	
For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Audited)
Total Operating Income	16.20	53.67
EBITDA	-0.83	-4.08
PAT	-6.49	-14.90
Total Debt	85.05	106.59
Tangible Net worth	-0.40	-4.46
EBITDA Margin (%)	NM	NM
PAT Margin (%)	NM	NM
Overall Gearing Ratio (times)	NM	NM

*Classification as per Infomerics standards
NM- Not Meaningful

Financials (KMSM – Standalone) *:

	(Rs. Crore)	
For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Audited)
Total Operating Income	502.73	548.34
EBITDA	55.58	72.99
PAT	26.24	41.47
Total Debt	201.07	224.16
Tangible Net worth	129.00	162.24
EBITDA Margin (%)	11.06	13.31
PAT Margin (%)	5.17	7.43
Overall Gearing Ratio (times)	1.56	1.38

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Nil

Any other information: None



Press Release

Rating History for last three years:

		Current Ratings (Year 2022-23)			Rating History for the past 3 years			
Sr. No.	Name of Instrument / Facilities	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 2020-21	Date(s) & Rating(s) assigned in 2019-20
Press Release					27-Sep-2021	3-Jul-2020	22-Jun-20	16-Apr-2019
1.	Term Loan	Long Term	52.10	IVR A-(CE) / Stable	IVR BBB+(CE)	IVR BBB (CE)	IVR BBB (CE)	--
2.	Cash Credit	Long Term	15.75	IVR A-(CE) / Stable	IVR BBB+(CE)	IVR BBB (CE)	IVR BBB (CE)	--
3.	Bank Guarantee	Short Term	2.70	IVR A2+(CE)	IVR A2 (CE)/	IVR A3+(CE)	IVR A3+(CE)	--

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Press Release

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

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.



Press Release

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 – Rupee Term Loan	–	–	December 2029	52.10	IVR A- (CE)/ Stable
Long Term – Fund Based – Cash Credit	–	–	–	15.75	IVR A- (CE)/ Stable
Short Term Non-Fund Based – Bank Guarantee	–	–	–	2.70	IVR A2+ (CE)

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-SCL-Dec22.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.