



Press Release

Sonar Casting Limited

March 22, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings #	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	49.30* (Reduced from Rs.52.10 crore)	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook]	Reaffirmed	Complex
Long Term Bank Facilities – Cash Credit	12.00 (Reduced from Rs.15.75 crore)	IVR A- (CE)/ Stable [IVR Single A Minus (Credit Enhancement) with Stable Outlook]	Reaffirmed	Complex
Short Term Bank Facilities – Bank Guarantee	2.70	IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement)]	Reaffirmed	Complex
Total	64.00			
	(INR Sixty-four crore only)			

**Outstanding as on December 31, 2023*

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

Sugar Mills Limited (KMSM, rated: IVR A-/Stable; IVR A2+)

Un-supported Rating¹	IVR B/ Stable (IVR Single B with Stable Outlook) [Downgraded from IVR B+/ Stable (IVR Single B Plus with Stable Outlook)]
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#Unsupported Rating does not factor in the explicit credit enhancement

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings 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]

¹ As stipulated vide SEBI circular no. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019



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and IVR A2+ (CE) [IVR A Two Plus (Credit Enhancement) against the unsupported rating of IVR B; Stable (IVR B with Stable Outlook).

Further, the ratings continue to derive strength from experienced promoters backed by strong management team, locational advantage and corporate guarantee from KMSM. These rating strengths are however constrained by susceptibility of profitability to volatility in raw material prices due to lack of backward integration and cyclical in the steel industry. The revision in the unsupported (standalone) rating reflects overall decline in business & financial performance of the company in FY2023.

Key Rating Sensitivities:

Upward factors

- Sustained & significant improvement in revenue & profitability margins leading to improvement in the debt protection parameters
- Improvement in the capital structure
- Improvement in credit risk profile of the corporate guarantor

Downward Factors

- Any deterioration in revenue and/or profitability leading to deterioration in debt coverage indicators
- Deterioration in the credit risk profile of the corporate guarantor

Adequacy of credit enhancement structure

For assigning the ratings, Infomerics has assessed the attributes of the corporate guarantee issued by KMSM in favour of the lender of SCL who has extended the said facilities. The corporate guarantee extended by KMSM is legally enforceable, unconditional and irrevocable with a well-defined invocation and payment mechanism which cover the entire amount and tenor of the rated facilities. The corporate guarantee results in an enhancement in the rating of the said facilities to IVR A- (CE)/ Stable against the unsupported rating of IVR B/ Stable. The adequacy of credit enhancement has been tested after considering guaranteed debt by KMSM. The capital structure and debt protection metrics of KMSM remain adequate.

Transaction Structure

In event of payment default, the following structure will be applicable:

1. T being scheduled due date of payment
2. If the fund available are not sufficient for repayment two (2) days prior to the respective due date of such loan amount, it shall be recognized as 'Event of Default' (EOD)



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3. The Lender will invoke the bank guarantee not later than T-1 days by giving a demand notice to the guarantor.
4. The guarantor upon receipt of such demand notice from the lender shall forthwith and in any case latest by the Due date (T) shall make the payment.

Infomerics will consider T as its legal final maturity for the purpose of recognition of default.

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 Corporation Limited and well-established connectivity by rail and road, also acts as an added advantage.

Continuous support from KMSM

SCL has received continuous support from KMSM (rated IVR A-/Stable; A2+ on March 21, 2024), the group concern of SCL in the form of infusion of funds as and when required. Further, KMSM, 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.576 crore during FY23. KMSM had infused preference shares to the tune of Rs.12.50 crore in FY2023 (total o/s preference share capital is Rs.32.90 crore as on March 31, 2023) and has further infused another Rs.9.60 crore in FY2024. 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:

Nascent stage of operations and weak business performance of the company



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SCL commenced operations in a phased wise manner. While operations for one of two moulding machines with installed capacity of 1000MT commenced from October 2020, operations of line 2 with installed capacity of 1000MT per month, commenced from April 2021 onwards. SCL's topline decreased from Rs.54.12 crore in FY2022 to Rs.35.02 crore in FY2023 due to decrease in export demand on account of global macro-economic uncertainties consequent to Russia-Ukraine war and high ocean freight charges. With decrease in top line, the company was unable to completely absorb its fixed and variable overheads. Consequently, loss at the EBITDA level stood at Rs.2.83 crore in FY2023 against Rs.3.64 crore in FY2022. Further, with high interest cost and depreciation provision, SCL incurred a net loss of Rs.10.24 crore in FY2023 (Net loss of Rs.14.90 crore in FY2024). Total operating income increased to Rs.43.47 crore during 9MFY2024 (Rs.28.24 crore during 9MFY2023) with rise in both domestic as well as export demand. The company's ability to stabilise and ramp up its operations and achieve break even going forward will be critical from credit perspective.

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.

Exposure to intense competition

The industry is riddled with high competition due to presence of several domestic and international players. Intense competition from both domestic and international players is having a negative impact on the profitability of the company.

Cyclicity in the Industry

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: Assessment of the credit profile of [K.M. Sugar Mills Limited \(KMSM\)](#), provider of proposed corporate guarantee to SCL.



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Unsupported rating: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Structured Debt Transaction \(Non-Securitisation Transaction\)](#)

[Criteria of assigning rating outlook](#)

[Policy of Default Recognition](#)

[Criteria on complexity](#)

Liquidity: Stretched

SCL's liquidity appears to be stretched with current ratio of 0.77x as on March 31, 2023 (0.99x as on March 31, 2022). The company has incurred cash loss in FY23. Though, SCL has not generated sufficient cash accruals from its operating actives during the year 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.12.50 crore in FY2023 and subsequently Rs.9.60 crore during FY24 in SCL to support its business operations and honour its debt repayment obligations. SCL is expected to receive need-based funding support from its promoters and guarantor company as and when required.

About the Company

Incorporated on February 07, 2019, Sonar Casting Limited (SCL) was set up with the objective to manufacture Ductile Iron and Casting products like manhole covers, pipes etc. The company had 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 was around Rs.78.40 crore, which was 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 had achieved COD for one of two moulding machines in October 2020, with installed capacity of 1000MT per month. Further, for line 2, COD was achieved on April 2021, with installed capacity of 1000MT per month.

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.575.53 crore during FY2023. The company is listed on BSE and NSE.

Financials (SCL – Standalone):



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(Rs. Crore)		
For the year ended*/ As on	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	54.12	35.02
EBITDA	-3.64	-2.83
PAT	-14.90	-10.24
Total Debt	106.59	106.78
Tangible Net worth	-16.45	-27.34
EBITDA Margin (%)	-6.72	-8.08
PAT Margin (%)	-27.13	-28.77
Overall Gearing Ratio (times)	NM	NM
Interest Coverage Ratio (x)		

*Classification as per Infomerics standards

NM- Not Meaningful

Financials (KMSM – Standalone):

(Rs. crore)			
For the year ended* / As On	31-03-2022	31-03-2023	9MFY2024
	Audited	Audited	Unaudited
Total Operating Income	548.34	575.53	534.23
EBITDA	73.29	49.69	44.90
PAT	41.47	23.21	20.43
Total Debt	224.16	267.87	-
Tangible Net worth	191.56	214.54	-
Adjusted Tangible Net worth	153.34	142.00	-
EBITDA Margin (%)	13.37	8.63	8.40
PAT Margin (%)	7.43	3.96	3.79
Overall Gearing Ratio (x)	1.17	1.25	-
Interest Coverage Ratio (x)	6.22	3.59	3.88

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

(Rs. Crore)							
Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	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
					December 26, 2022	September 27, 2021	July 03, 2020
1.	Term Loan	Long Term	49.30* (Reduced from Rs.52.10 crore)	IVR A-(CE) / Stable	IVR A-(CE) / Stable	IVR BBB+(CE)	IVR BBB (CE)



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	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
					December 26, 2022	September 27, 2021	July 03, 2020
2.	Cash Credit	Long Term	12.00 (Reduced from Rs.15.75 crore)	IVR A- (CE) / Stable	IVR A- (CE) / Stable	IVR BBB+ (CE)	IVR BBB (CE)
3.	Bank Guarantee	Short Term	2.70	IVR A2+ (CE)	IVR A2+ (CE)	IVR A2 (CE)/	IVR A3+ (CE)

**Outstanding as on December 31, 2023*

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About Infomerics Ratings:

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 6 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. Cr)	Rating Assigned/ Outlook
Term Loan	--	--	December, 2029	26.80	IVR A- (CE)/ Stable
GECL	--	--	December 2024	0.95	IVR A- (CE)/ Stable
GECL	--	--	February, 2025	1.15	IVR A- (CE)/ Stable
Term Loan	--	--	December, 2029	15.85	IVR A- (CE)/ Stable
Term Loan	--	--	December, 2029	4.55	IVR A- (CE)/ Stable
Cash Credit	--	--	Revolving	12.00	IVR A- (CE)/ Stable
Bank Guarantee	--	--	-	2.70	IVR A2+ (CE)

Annexure 2: Facility wise lender details: [As per attached annexure](#)

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

List of major covenants:

- Corporate Guarantee of KMSM
- Bank shall have a right to re-set the interest rate of Term Loans in case of adverse deviation by more than 20%, in respect of any two of the following five financial parameters, arrived at based on audited financial statements each year, from the estimated/projected levels accepted at the time of sanction/last review:

Parameter	Acceptable level for covenant testing
DSCR	1.79
Interest Coverage Ratio	2.35
Fixed Asset Coverage Ratio	1.25
Debt/EBITDA	2.93

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.