



Press Release

Sova Electrocasting Limited

March 11, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	25.00	IVR C; Stable (IVR C with stable outlook)	-	Rating Assigned	Simple
Total	25.00 (Rupees twenty-five 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 rating assigned to the bank facilities of Sova Electrocasting Limited (SEL) derives comfort from long track record of its operation under experienced promoters, locational advantage and stable business performance in FY24 [FY refers to the period from April 1 to March 31] albeit thin profitability. However, these rating strengths are partially offset by SEL's stretched liquidity position leading to instances of delays in vehicle loans, moderate capital structure with moderate debt protection metrics, susceptibility of profitability to raw material price volatility, presence in highly fragmented industry with low bargaining power and exposure to cyclical in the steel industry.

The stable outlook reflects that the company is expected to continue to benefit from extensive experience of its promoters in steel industry and growing demand of iron and steel products in domestic market.

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 ratio to below 2x and/or improvement in debt protection metrics
- Effective working capital management leading to improvement in operating cycle and liquidity



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Downward Factors

- Decline in operating income and/or profitability impacting the cash accrual and debt coverage indicators
- Moderation in capital structure with moderation in overall gearing to over 4x and/or moderation in interest coverage to below 1.2x
- Moderation in liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operation under experienced promoters**

SEL is engaged in the production and marketing of TMT Bars since 1997. Hence the company has a long track record of operation. Moreover, the promoters of the company have more than two decades of experience in business and actively manage the company's operations.

- **Locational advantage**

The manufacturing facility of the company is located in Bamunara Industrial area in Durgapur, West Bengal which is known as steel hub and is in close proximity to various producers of iron ore, coal and manufacturers of sponge iron, pig iron and iron scrap. Further, the location has favourable conditions and sourcing of iron ore and coal within state and other adjacent state from nearby coal mines is not an issue. Presence in steel belt supports the business risk to an extent.

- **Stable business performance albeit thin profitability**

The company's total operating income (TOI) witnessed a CAGR of ~32% from Rs.166.98 crore in FY22 to Rs.328.71 crore in FY24 mainly on account of increase in sales volume due to stable demand of its product. The absolute EBITDA has improved marginally from Rs.5.90 crore in FY23 to Rs.6.12 crore in FY24. Similarly, absolute PAT has improved by 4.24% in FY24. However, EBITDA margin has moderated from 2.38% in FY23 to 1.86% in FY24 due to increase in cost of production. Moreover, heavy competition from many organised and unorganised player in this sector due to low product differentiation also restricts the margin to an extent. The PAT margin also remained thin over the years and moderated from 0.35% in FY23 to 0.27% in FY24. Further, SEL posted TOI of Rs. 260.29 crore with PAT margin of 0.29% in 9MFY24.

Key Rating Weaknesses



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- **Instances of delays in vehicle loans**

There have been recent instances of delays in servicing of vehicle loan obligations by SEL as confirmed by the lender. However, as on February 10, 2025, there are no dues in this regard, as confirmed by the banker.

- **Moderate capital structure with moderate debt protection metrics**

The capital structure of the company remained leveraged marked by its high overall gearing ratio at 3.04x as on March 31, 2024 (3.18x as on March 31, 2023). The debt profile of the company mainly consists of vehicle loan, unsecured loans from body corporates and cash credit/overdraft facility. Considering investments in group company of Rs.5.99 crore in FY24 (Rs. 5.99 crore in FY23), the Adjusted Tangible Net worth (ATNW) stood at Rs.18.28 crore as on March 31, 2024 (Rs.17.52 crore as on March 31, 2023). The debt protection metrics of the company also stood moderate marked by its high Total Debt to EBITDA and Total Debt to NCA at 9.07x and 21.83 years respectively as on March 31, 2024. However, the interest coverage ratio stood satisfactory at 1.67x in FY24 (1.53x in FY23).

- **Susceptibility of profitability to raw material price volatility**

The price of iron ore/ coal which are the main raw materials and finished steel products prices are highly volatile in nature. The company is exposed to the risk of price volatility from the time of procurement of the product till sale of the same. This also exposes the risk of the company's growth and profitability.

- **Presence in highly fragmented industry with low bargaining power**

The iron and steel industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the company's pricing flexibility and bargaining power.

- **Exposure to cyclicity in the steel industry**

The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with expected robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector. However, any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact the group adversely.

Analytical Approach: Standalone



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Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

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

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Stretched

The liquidity position of the company is stretched marked by high utilisation in its working capital limits with an average utilisation at ~99% during the past 12 months ended in December 2024 indicating little liquidity cushion. Moreover, the company has a limited gearing headroom marked by its leverage capital structure with an overall gearing at 3.04x as on March 31, 2024. However, the company is expected to earn adequate gross cash accruals in the range of ~Rs.2.93 to ~Rs.6.28 crore as against its debt repayment obligations in the range of ~Rs.0.02 to ~Rs.0.40 crore during FY25-FY27 which imparts comfort.

About the Company

Sova Electrocasting Limited (SEL) is engaged in the production and marketing of TMT Bars under the name of 'SOVA SUPER TMT 500+'. The manufacturing unit is located in Bamunara Industrial Area, Post- Bamunara, Durgapur-713212, Dist. Paschim Bardhaman, West Bengal. The Production capacity of SEL is 1.15 lac MTPA for MS Billet and 1.10 lac MTPA for TMT Bar.

Financials (Standalone):

For the year ended / As on*	(Rs. Crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	247.97	328.71
EBITDA	5.90	6.12
PAT	0.87	0.90
Total Debt	55.74	55.52
Tangible Net worth	23.51	24.27
Adjusted Tangible Net worth	17.52	18.28
EBITDA Margin (%)	2.38	1.86
PAT Margin (%)	0.35	0.27
Overall Gearing Ratio (x)	3.18	3.04
Interest Coverage (x)	1.53	1.67

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil



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Any other information: Nil

Rating History for last three years:

Sr. No	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Cash Credit	Long Term	25.00	IVR C; Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Ltd (Formerly Infomerics Valuation & Rating Pvt. 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).

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	25.00	IVR C; Stable

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-SovaElectrocasting-mar25.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.