Sponge Sales India India Private Limited
December 08, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facility	20.00	IVR BB+; Stable (IVR Double B Plus with Stable outlook)	Assigned	Simple
Short-Term Bank Facilities	26.00	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Total	**46.00 (INR Forty-six crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sponge Sales India Private Limited (SSIPL) derives strength from its experienced and resourceful promoters, healthy improvement in its scale of operation albeit thin profitability. Further, the ratings also consider favourable outlook for iron steel industry in India and efficient working capital management of the company. However, these rating strengths remain partially offset by low profit margin of the company due to trading nature of its business, moderate capital structure with average debt protection metrics, profitability susceptible to fluctuations in key traded goods prices and presence in highly fragmented industry marked by intense competition.

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 below 1.2x and improvement in interest coverage ratio to over 2x.

Downward Factors

- Significant decline in revenues and profitability leading to moderation in GCA.

- Any unplanned capex and/or withdrawal of subordinate unsecured loan leading to impairment in the capital structure with moderation in overall gearing to over 2x and interest coverage to below 1x
- Increase in operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced and resourceful promoters**

The operations of the company are currently being managed by Mr Pankaj Khetan, Mr Kuldeep Garg and Mr Prashast Goyal. The promoters are having experience ranging between 15-30 years and are assisted by a team of professionals from various domains. Furthermore, the promoters of the company are resourceful and have been infusing funds in the company over the years. During FY23, SSIPL has infused fresh equity capital of Rs.1.43 crore with addition of securities premium of Rs.4.98 crore. This apart, the promoters and related parties have infused additional unsecured loans amounting to Rs.12.51 Cr as on March 31, 2023, to support various business requirements of the company.

- **Healthy improvement in scale of operation albeit thin profitability**

SSIPL has maintained a steady growth in its scale of operations over the past few years as the topline grew at a CAGR of ~40% from ~Rs.668 crore in FY21 to ~Rs.1305 crore in FY23 with y-o-y growth of ~11% in FY23. The top line has grown mainly driven by increased demand of its traded products leading to higher sales volume and better sales realisation. During 7M FY24, SSIPL has already managed to churn out revenue of ~Rs.749 crore which is ~49% of the projected revenue of Rs.1502 crore. Improvement in topline has led to the improvement in absolute EBITDA as it stood at Rs.12.85 crore in FY23 against Rs.10.19 crore in FY22. The operating margin of the entity has improved slightly to 0.98% in FY23 against 0.87% of FY22.

- **Favourable outlook for iron steel industry in India**

India’s finished steel consumption is anticipated to increase to 230 MT by 2030-31 from 119.17 MT in FY23. The growth prospects and steel industry outlook in India is favourable. Recent changes in export taxes and import duties on steel, complemented by the rising demand for affordable housing, infrastructure development and construction projects, has led to a pan-India need for steel metal. Moreover, the government’s initiative to make India self-sufficient has made room for sustainable urban development, construction of proposed logistics parks and industrial corridors – all adding to the meteoric demand for finished steel and steel as a raw material.

- **Efficient working capital management**

SSIPL has a comfortable operating cycle of 17 days in FY23 and the GCA days of 35 suggests that the company has manged its working capital very effectively. Further, the moderate working capital utilisation of 67% for last 12 months ended August 31, 2023, indicating sufficient liquidity buffer for the company.

Key Rating Weaknesses:

- **Low profit margin due to trading nature of business**

Owing to the trading nature of operations and considering the heavy competition faced among many organised and unorganised player in this sector, the profit margins of SSIPL has remained thin over the years. The profitability margins of the company remained low marked by EBITDA and PAT margins of 0.98% and 0.18%, respectively in FY23 (PY: 0.87% and 0.18%), owing to the trading nature of business.

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

The capital structure of the company remained leveraged over the past fiscals mainly due to its small net worth base and high working capital requirements. However, during FY23 SSIPL has infused fresh equity capital and security premium of Rs.6.42 crore which has boosted the net worth. Furthermore, considering the subordinated unsecured loan of Rs.12.51 crore and investments in group company of Rs. 5.57 crore, the Adjusted Net worth stood at Rs. 35.79 crore as on March 31, 2023, leading an adjusted gearing of 1.55x as on March 31, 2023, against 1.71x as on March 31, 2022. Accordingly, Total indebtedness marked by TOL/ATNW also improved and stood at 2.66x as on March 31, 2023, against 3.43x as on March 31, 2022. Notwithstanding the improved absolute EBITDA, owing to increased finance cost, the debt protection metrics marked by the interest coverage ratio has slightly moderated to 1.34x in FY23 against 1.39x of FY22.

- **Profitability susceptible to fluctuations in key traded goods prices**

The profitability of the company is vulnerable to sharp fluctuations in prices of iron ore, which affects sales realisations. Iron ore prices have been volatile in recent years. Given the nature of the industry the Company remains susceptible to any adverse movement in traded goods prices along with high requirement of working capital.

- **Highly fragmented industry marked by intense competition**

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 group's pricing flexibility and bargaining power.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Criteria on default Recognition

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate over the projected period to serve its debt repayment obligation. SSIPL is expected to generate cash accruals in the range of Rs.4.74- 7.55 crore as against its debt servicing obligation of ~Rs. 1.72- 1.92 crore FY24-26. As on March 31, 2023, the entity has a healthy current ratio of 1.82x. Further, the average working capital utilization remained moderate at ~67% for last 12 months ended August 31, 2023, indicating sufficient liquidity buffer for the company. In addition, SSIPL has got support from the promoter and related parties in the form of unsecured loans in the past which is also expected to continue in the future.

About the Company

Incorporated back in 1994, in Mandi Gobindgarh, Punjab, Sponge Sales India Private Limited (SSIPL) is engaged in trading of iron and steel products such as sponge iron, pig iron, MS Billet, steel ingots and ferro alloys. The Company is an authorised dealer of Tata Sponge Iron Ltd., SAL Steel Limited, Aarti Steels Ltd., Welspun Steel Ltd and VISA Steel Ltd. The company is a regional player mainly selling its products in the state of Punjab. This apart, it also sales its products in Himachal, J&K and other northern states as well. Presently the company is being manged by three directors, namely Mr. Kuldeep Garg, Mr. Pankaj Khetan and Mr. Prashast Goyal along with a team of experienced personnel.

Financials of Sponge Sales India Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1172.11	1305.05
EBITDA	10.19	12.85
PAT	2.06	2.34
Total Debt	77.63	55.66
Tangible Net worth	20.08	28.85
Tangible Net worth adjusted	34.01	35.79
EBITDA Margin (%)	0.87	0.98
PAT Margin (%)	0.18	0.18
Overall Gearing Ratio adjusted (x)	1.71	1.55
Interest Coverage	1.39	1.34

*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 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
1.	Cash Credit	Long Term	20.00	IVR BB+/ Stable	-	-	-
2.	Letter of Credit	Short Term	25.00	IVR A4+	-	-	-
3.	Bank Guarantee	Short Term	1.00	IVR A4+	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@infomerics.com

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 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 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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	20.00	IVR BB+/ Stable
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	25.00	IVR A4+
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	1.00	IVR A4+

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-SpongeSales-dec23.pdf

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

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