Sri Ganesh Sponge Iron Private Limited

March 20, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	48.00	IVR BBB (CE)* /Stable (IVR Triple B [Credit Enhancement] with Stable Outlook	Reaffirmed	Complex
Total	**48.00 (INR Foty eight crore only)**			

** CE rating is backed by irrevocable and unconditional corporate guarantee from Kashvi International Private Limited (KIPL, rated: IVR BBB/Stable, A3+)*

Unsupported Rating[1]	IVR BB-; Stable (IVR Double B Minus with Stable Outlook)

Unsupported Rating does not factor in the explicit credit enhancement

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in rating assigned to the bank facilities of Sri Ganesh Sponge Iron Private Limited (SGSI) continues to derive comfort from its experienced promoters and corporate guarantee from Kashvi International Private Limited (KIPL). This corporate guarantee results in credit enhancement in the rating of the said bank facilities to **IVR BBB (CE)/Stable Outlook (IVR Triple B [Credit Enhancement] with Stable Outlook)** against the unsupported rating of **IVR BB-/Stable (IVR Double B Minus with Stable Outlook).** The rating follows set of guidelines issued by RBI to the credit rating agencies vide letter dated April 22, 2022, and July 26, 2022, for bank loan ratings which are credit enhanced. Further, the rating also considers the commencement of operation of Sri Ganesh Sponge Iron Private Limited from July 2023 coupled with the ownership of mines by group companies indicating strong backward integration and benefits from locational advantage. However, these rating strengths are constrained due to volatility in the prices of raw materials and finished goods, exposure to cyclicity in the steel industry and exposure to high competition along with the project stabilization risk considering the nascent stage of operation.

Key Rating Sensitivities

Upward factors

- Steady growth in scale of operations with rise in profitability and cash accruals

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

- Improvement in the capital structure coupled with improvement in debt protection metrics
- Improvement in the credit profile of the corporate guarantor
- Effective working capital management with improvement in operating cycle and liquidity.

Downward factors

- Significant decline in operating income and profitability leading to deterioration in debt coverage indicators and moderation in liquidity profile of the company.
- Moderation in the credit profile of the corporate guarantor
- Pilling up of inventory leading to stretch in liquidity and moderation of operating cycle.
- Non conversion of unsecured loan from promoters into equity

Adequacy of credit enhancement structure

For assigning the ratings, Infomerics has assessed the attributes of the corporate guarantee issued by KIPL in favour of the lender of SGSI who has extended the said facilities. The corporate guarantee extended by KIPL 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 BBB (CE)/ Stable against the unsupported rating of IVR BB-/ Stable. The adequacy of credit enhancement has been tested after considering guaranteed debt by KIPL. The debt protection metrics of KIPL 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)
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**

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

The promoter, Mr. Debabrata Behera (aged about 50 years), is a first-generation entrepreneur and has more than two and half decades of experience in the business of iron ore trading/exporting, manufacturing of sponge iron, billet and ingots. Mr. Behera started his career with Orissa Sponge Iron Ltd in 1991 and worked in various companies in various capacities. Mr. Behera received best "ENTREPRENEUR" award from Govt. of Odisha in 2012. He looks after the day-to-day operations of the company. Long experience of the promoter supports the business risk profile of the company.

- **Commencement of operation in FY24**

The company has started commercial operations from July 2023. In FY24, till November 2023 within 5 months of its operation SGSI has managed to churn out revenue of ~Rs.56 crore with satisfactory operating margin.

- **Support from group companies**

SGSI has received continuous support from its group companies KPSPL (rated: IVR BBB-/Stable/A3 vide PR dated June 13, 2023) and KIPL (rated: IVR BBB/Stable vide PR dated February 28, 2024) in the form of unsecured loans as and when required. Further, KIPL has extended a corporate guarantee to the bank facilities availed by SGSI. KIPL has a strong financial profile and is engaged in sponge iron manufacturing business in Odisha. Going forward, Infomerics believes financial support will also be extended to SGSI by the corporate guarantor, in case of pressure on cash flows.

- **Strategic location of the plant and strong backward integration**

KIPL's manufacturing facility is located at Keonjhar District of Orissa, which is in close proximity to iron ore mines from where KIPL procures its iron ore. This apart, the company has a 2MW captive power plant in its premises. Further, coal rich states of Jharkhand, West Bengal and Chhattisgarh are also located nearby. From the demand side also, Keonjhar being an industrial belt has end market for its sponge iron. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plant enjoys competitive advantages in terms of containment of transportation costs and ready market. Furthermore, addition of captive mine will enhance the capability of the company to a large extent.

Key Rating Weaknesses

- **Nascent stage of operation**

The company is in its nascent stage of operation, hence there exists a stabilisation risk. Further, the scale of operations is expected to remain small in the near term.

- **Highly competitive & fragmented nature of industry**

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

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

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

The cyclicality of the user industry is likely to impact the cash flows of the players, including SGSI. The steel industry, being cyclical in nature, witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of Kashvi International Private Limited (KIPL), provider of proposed corporate guarantee to SGSI.

Unsupported rating: Standalone

Applicable Criteria

Criteria of assigning Rating Outlook
Rating Methodology for Manufacturing Companies
Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria on complexity
Criteria on Default Recognition

Liquidity: Adequate

The liquidity is expected to remain adequate marked by resourcefulness of the promoters and support from the other group companies. Further, the company is expected to earn gross cash accrual in the range of ~Rs.10-18 crore during FY24-26 and which is expected to be sufficient to meet its debt repayment obligations around ~Rs.4.30 crore each during FY24-26. The average cash credit utilisation of the company remained moderate at ~82% during the past 5 months ended November 2023 indicating moderate liquidity cushion.

KIPL has earned a gross cash accrual of Rs.35.29 crore in FY23. Further, the company is expected to earn a gross cash accrual in the range of ~Rs.44-56 crore as against debt repayment obligation in a range of ~Rs.34-11 crore during FY24-FY26. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, the company has comfortable capital structure indicating sufficient gearing headroom. Moreover, the average cash credit utilisation of the company remained satisfactory at ~62% during the past 12 months ended November 2023 indicating an adequate liquidity cushion.

About the Company

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

Sri Ganesh Sponge Iron Private Limited (SGSI) was incorporated in 2001 by one by Mr. Laxmi Narayan Sharma of Keonjhar, Odisha, to initiate sponge iron manufacturing plant. Commercial operation was started from 2004 and later the company had increased its production facility to around 200MTPD (60,000 MTPA) and also initiated a 1.05MW power plant, 75TPH iron ore crusher and also installed an Induction Furnace for billet manufacturing and a rolling mill to manufacture TMT bars. However, the company remained dormant since 2014 and was moved to NCLT since February 2019. In recent past, the company was acquired by a consortium of Bhubaneshwar based Kashvi Power & Steel Private Limited (KPSPL) & Kashvi International Pvt Ltd (KIPL), a part of Kashvi group promoted by Mr. Debabrata Behera in January 2022 from bidding process of Insolvency and Bankruptcy Board of India (IBBI) at a total bidding amount of Rs.30.15 crore. The company has started its commercial production from July 2023.

<u>About the Corporate Guarantor (KIPL)</u>

KIPL, incorporated in July 2007 was promoted by Mr. Debabrata Behera of Keonjhar district, Orissa, along with Ms. Susmita Behera. Initially the company remained dormant. The promoters acquired a plant from Patnaik Minerals Private Limited under KIPL and started manufacturing of sponge iron since February 2018. The plant of the company is located at Keonjhar which is in proximity of various steel plants and raw material suppliers with a current installed capacity of 90,000 metric tonne per annum (MTPA). During February 2020, the company has secured a 50-year lease of Jaribahal Iron Ore Mines in Odisha through mining auction.

Financials of Sri Ganesh Sponge Iron Private Limited (Standalone):

For the year ended* / As On	31-03-2023
	Audited
Total Income	-
EBITDA	(1.57)
PAT	-
Total Debt	49.11
Tangible Net worth	15.00
EBITDA Margin (%)	-
PAT Margin (%)	-
Overall Gearing Ratio (x)	3.27
Interest Coverage	-

**As per Infomerics' Standard*

Financials of the Corporate Guarantor Kashvi International Private Limited (Standalone)

(Rs. Crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited

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

Total Operating Income	928.66	687.60
EBITDA	53.37	56.41
PAT	21.64	16.53
Total Debt	64.62	102.23
Tangible Net worth	92.08	132.96
EBITDA Margin (%)	5.75	8.20
PAT Margin (%)	2.33	2.40
Overall Gearing Ratio (x)	0.57	0.79
Interest Coverage Ratio (x)	8.14	3.56

**As per Infomerics' Standard*

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 Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Jan 06, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Nov 23, 2022)	Date(s) & Rating(s) assigned in 2022-23 (Aug 26, 2022)
1.	Term loan	Long Term	30.00	IVR BBB (CE) /Stable	IVR BBB (CE) /Stable	Provisional IVR BBB (CE); Stable	Provisional IVR BBB (CE); Stable
2.	Cash Credit	Long Term	18.00	IVR BBB (CE) /Stable	IVR BBB (CE) /Stable	Provisional IVR BBB (CE); Stable	Provisional IVR BBB (CE); Stable
3.	Long Term Bank Facility	Long Term	-	-	Withdrawn	Provisional IVR BBB (CE); Stable	Provisional IVR BBB (CE); Stable

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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).

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

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 7 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

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2030	30.00	IVR BBB (CE) /Stable
Cash Credit	-	-	-	18.00	IVR BBB (CE) /Stable

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-SriGaneshSponge-mar24.pdf

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

List of major covenants:

- DER (Total Debt/TNW) for the project shall not exceed 2:1 at all times during the tenor of the facility
- Fixed asset overage ratio (value of fixed asset /term loan outstanding) will be maintained at the level of 1.20:1

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

- The company shall ensure maintenance of current ratio at the estimated level of 1.10:1
- Interest coverage ratio shall be maintained at the estimated level of 1.50:1 and TOL/TNW will be maintained at the estimated level of 6:1
- In the event of default in repayment to the bank or if cross default has occurred, the bank will have the right to appoint its nominee on the Board of Directors of the borrower to look after its interest.
- In stressed situation or restructuring of debt, the regulatory guidelines provide for conversion of debt to equity. The bank shall have the right to convert loan to equity or other capital in accordance with the regulatory guidelines.
- After provision for tax and other statutory liabilities, unless expressly permitted otherwise the bank will have a first right on the profit of the borrowers for repayment of amounts due to the bank.
- Effect any change in the borrower's capital structure where the shareholding of the existing promoter(s) gets diluted below current level or 51% of the controlling stake (whichever is lower), without prior permission of the bank- for which 60 days prior notice is required.
- The borrower will utilise the funds for the purpose they have been lent. Any deviation will be delt as per RBI guidelines.

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

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