



Press Release

Saatvik Ferro Limited

August 30, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term /Short Term Bank Facilities	15.00* (enhanced from Rs. 9.00 crore)	IVR BBB-/ Stable/ IVR A3 (IVR triple B minus with Stable outlook and IVR A three)	Reaffirmed	Simple
Total	15.00 (INR Fifteen crore only)			

*EPC/PCFC of Rs. 13.00 crore and CC of Rs. 2.00 crore is a sub-limit

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Saatvik Ferro Limited (SFL) consider the common management team and operational & financial linkages between SFL and its group concerns, Satvik Enterprises Limited and Vamancore Pte Limited. Infomerics has taken a consolidated view of these entities referred together as Saatvik Group. The reaffirmation of ratings assigned to the bank facilities of SFL continues to derive strength from promoters' extensive experience in the ferro-alloy trading business, improvement in topline and profitability in FY22 (Provisional), conservative capital structure and healthy coverage indicators, prudent risk management policy leading to lower debtor and inventory risk, a strong customer base and low counterparty and price fluctuation risk. However, the rating strengths are constrained on account of thin profit margins due to trading nature of operations, highly fragmented and competitive ferro-alloy industry keeps margins under check and exposure to cyclicity in the Steel industry and susceptibility to fluctuations in commodity prices.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income, operating margin and cash accrual



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- Improvement in working capital management with improvement in liquidity
- Improvement in capital structure and debt protection metrics

Downward Factors

- Moderation in operating income and/or profitability and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables impacting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing and moderation in interest coverage ratio.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Promoters' extensive experience in the ferro-alloy trading business**

Saatvik group's promoters are in the line of ferro-alloy trading business for more than two decades. Over the years, the promoters have developed good insights about the cyclicity of the industry and has also established healthy relationship with its suppliers and key customers. Infomerics believes Saatvik group's business risk profile would continue to benefit backed by promoters' longstanding industry experience

- **Improvement in topline and profitability in FY22 (Provisional)**

In FY2022 (provisional) the group witnessed a significant growth in topline, which has consequently led to an increase in profits and GCA. The group's total operating income (TOI) increased to Rs. 2038.48 crore in FY2022 (provisional) from Rs. 831.85 crore in FY2021 depicting an increase of ~145% on a y-o-y basis, primarily led by strong performance from VPL, followed by SFL and SEL. In FY 22 (provisional) TOI at VPL was up by 194% y-o-y to Rs. 1635.40 crore, compared with TOI increase of ~59% to Rs. 159.18 crore and ~7% to Rs. 349.74 crore at SFL and SEL, respectively. Consequently, the EBDITA and PAT also increased to Rs. 38.09 crore and Rs. 36.35 crore respectively in FY2022 (provisional) from Rs. 15.85 crore and Rs. 12.68 crore, respectively in FY2021. A sustained



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increase in the scale of operations along with maintenance of healthy profitability margins will be a key rating factor going forward.

- **Conservative capital structure and healthy coverage indicators**

The group's capital structure improved in FY22 marked by overall gearing ratio of 0.65x as on March 31, 2022 (provisional) which moderated from 1.02x as on March 31, 2021 owing to decline in total debt and accretion of profit to reserves. Long term debt equity was low at 0.03x as on March 31, 2022 (provisional) (0.02x as on March 31, 2021). Total indebtedness reflected by TOL/TNW was 1.77x as on March 31, 2022 (provisional) (2.23x as on March 31, 2021). With no major debt-funded capital expenditure on the anvil, the capital structure stood comfortable and is expected to remain conservative in the near term as well. The debt protection parameters of the group remained comfortable with interest coverage at 5.40x FY22 (provisional) (PY: 2.43x) and DSCR of 7.63x in FY22 (provisional) (PY: 3.41).

- **Prudent risk management policy leading to lower debtor and inventory risk**

Around 90-95% of the group's transactions are order-backed, and the balance is managed through a stock-and-sell model. Once the product enquiry is received from customers, the group seeks the best quotes from suppliers. While procuring the supplies, it orders for a marginal quantity, depending on expected movement in commodity prices in the near term, and sells the surplus material in the open market. A significant portion of receivables, backed by letters of credit, also reduce risks related to bad debts. As a result, gross current assets reduced to ~61 days in FY22 (provisional) from ~96 days in FY21.

- **Strong customer base**

The group has a strong customer base which includes many reputed medium size steel players. Moreover, the group has a healthy relationship with its customers which help the group to fetch repetitive orders. Established relationship with the key suppliers and customers has resulted in timely supply of materials and repeat orders.

- **Low counterparty and price fluctuation risk**



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The group has low counterparty risk as a major portion of transactions are LC backed or against advance payment. As the group is engaged in trading of ferro-alloys or other commodities, so the group is exposed to price fluctuation risk. The price fluctuation risk is mitigated by the adoption of back-to-back sales policy

Key Rating Weaknesses

- **Thin profit margins due to trading nature of operations**

The profitability of the group remained thin over the years mainly due to low value additive trading nature of its operations with intense competition in the operating spectrum. The group's operating profitability has remained thin. However, the profit margins have witnessed improvement as per FY22 (provisional) where PAT margin stood 1.77% as compared to 1.51% in FY21. However, despite improvement the profit margins remained thin and Infomerics believes group's margin would continue to remain modest at similar level over the medium term.

- **Highly fragmented and competitive ferro-alloy industry keeps margins under check**

The ferro-alloy industry comprises numerous established and un-organized players at different levels of the value chain. In addition to intense competition, low value addition (given the trading nature of operations), keeps profitability under check.

- **Exposure to cyclicity in the Steel industry and susceptibility to fluctuations in commodity prices**

With growth of the ferro-alloy industry directly linked to the steel industry, the inherent cyclical nature of the steel industry exposes the company to adverse steel price fluctuations and inventory losses. The metal trading business is cyclical in nature which is strongly correlated to economic cycles; hence earnings are susceptible to fluctuations in commodity prices.



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Analytical Approach: Consolidated

For arriving at the ratings, Infomerics has combined the business and financial risk profiles of Saatvik Ferro Limited, Satvik Enterprises Limited and Vamancore Pte Limited. This is because these companies, collectively referred to as the Saatvik group, are under control of same promoters, have business and financial linkages. List of companies considered for consolidated analysis is given below in **Annexure 2**

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

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

Liquidity – Adequate

The group is expected to have adequate liquidity marked sufficient inflows to match its long term debt repayment obligations from FY23-FY25. This coupled with low working capital utilization with combined average utilisation of around 24% during the last 12 months ended May 2022. Current ratio stood comfortable at 1.44 times as on March 31, 2022 (prov). Infomerics expects the liquidity position of the group will remain at an adequate level in medium term backed by a comfortable net working capital cycle.

About the company and the Group

Incorporated in 2008, Saatvik Ferro Limited (SFL) is also engaged in trading of ferro-alloy. SFL is also promoted and managed by Mr Vikas Kumar Agarwal.

Saatvik Enterprises Limited (SEL) was incorporated by Mr. Vikas Kumar Agarwal in 1997. Initially, the company was engaged in trading of steel products. Since 2006, the company started trading of ferro- alloys. Presently the company caters to both domestic and overseas markets such as France, USA, European nations etc.

Incorporated in 2008, Vamancore Pte Ltd. is a Singapore based, a wholly owned subsidiary of Satvik Enterprises Limited. The company is engaged exclusively in import and export of Ferro Alloys and Iron & Steel Products.



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Financials (Combined):

	(Rs. Crore)	
For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Provisional)
Total Operating Income	831.85	2038.48
EBITDA	15.85	38.09
PAT	12.68	36.35
Total Debt	92.50	88.44
Tangible Net-worth	90.76	136.92
EBITDA Margin (%)	1.90	1.87
PAT Margin (%)	1.51	1.77
Overall Gearing Ratio (x)	1.02	0.65

**Classification as per Infomerics' standards*

Financials (Standalone):

	(Rs. Crore)	
For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Provisional)
Total Operating Income	99.90	159.18
EBITDA	1.38	2.83
PAT	0.88	1.81
Total Debt	1.93	12.93
Tangible Net-worth	11.57	13.37
EBITDA Margin (%)	1.38	1.78
PAT Margin (%)	0.88	1.13
Overall Gearing Ratio (x)	0.17	0.97

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL vide publication dated January 28, 2022 continued to maintain the ratings of the Company in Issuer Not Cooperation category due to non-submission of information by the company.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 June 3, 2021	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	LongTerm	-	-	IVR BBB-/ Stable	-	-
2.	Bills discounting, sublimit of ILC/FLC	ShortTerm	-	-	IVR A3		
3.	FDBP	Long term/ ShortTerm	15.00*	IVR BBB-/ Stable/ IVR A3	-	-	-

**EPC/PCFC of Rs. 13.00 crore and CC of Rs. 2.00 crore is a sub-limit*

Name and Contact Details of the Rating Analyst:

Name Ms. Sapna Bagaria Tel: 033-4803 3621 Email: sapna.bagaria@infomerics.com	Name: Mr. Sandeep Khaitan Tel: 033-4803 3621 Email: sandeep.khaitan@infomerics.com
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About Infomerics Ratings:

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.



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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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
FDBP	-	-	-	15.00*	IVR BBB-/ Stable/ IVR A3

**EPC/PCFC of Rs. 13.00 crore and CC of Rs. 2.00 crore is a sub-limit*

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

Name of the company	Consolidation Approach
Satvik Enterprises Limited	Full consolidation
Saatvik Ferro Limited	Full consolidation
Vamancore Pte Limited	Full consolidation

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Saatvik-Ferro-aug22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable



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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.

