



Press Release

Sharu Steels Pvt Ltd

May 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	21.44	IVR BB+/Stable Outlook (Pronounced as IVR Double B plus with Stable Outlook)	Assigned
Short Term Bank Facilities	20.00	IVR A4+ (Pronounced as IVR Single A Four plus)	Assigned
Total	41.44 (INR Forty-One Crores and Forty-Four Lakhs Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sharu Steels Pvt Ltd (SSPL) derives strength from the extensive industry experience of the promoters coupled with long existence in the market, and above-average debt coverage indicators. However, the ratings are constrained by average business risk and financial risk profile, susceptibility of EBITDA margin to volatility in raw material prices, geographic concentration risk, and intense competition in the industry.

Key Rating Sensitivities:

Upward Factors

- Healthy growth in revenue and EBITDA margin , along with sustenance of working capital cycle.
- Improvement in financial risk profile metrics.

Downward Factors

- Sharp decline in total operating income or EBITDA margin leading to lower-than-expected cash accruals.
- Stretch in working capital cycle or large debt-funded capital expenditure weakening the financial risk profile and liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive industry experience of the promoters coupled with long existence in the market: The promoters have an experience of nearly three decades in the steel industry,



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which has enabled them to develop a sound understanding of the local market dynamics. Over their long tenure, they have developed strong relations with customers and suppliers. Furthermore, SSPL has its footprint in the market since 1987 which has also benefitted the company.

Above-average debt coverage indicators: SSPL posted a strong debt protection metrics marked by above average DSCR and interest coverage of 5.14x and 12.14x respectively in FY 2020 on account of nominal repayment commitment and interest cost. It is expected that the coverage indicators will continue to remain at the same level in the medium term as well.

B. Key Rating Weaknesses

Average business risk and financial risk profile: TOI declined to Rs. 153.20 crore in FY 2020 due to the change in the variant of vehicles to petrol in place of diesel as most of the customers of the company are automobile industry players and the sudden change in the same due to the policy of the government had led to the decline in the sales. As per FY 2021 (provisional), the sales rebound by over 5% despite the nationwide lockdown for the first three months. On account of the decrease in manufacturing and other operating expenses, the profitability margins marked by EBITDA margin and PAT margin jumped and remained moderate at 4.54% and 1.30% respectively as per FY 2021 (provisional) as against 3.98% and 0.80% respectively in FY 2020. Moreover, due to the reduction in the long-term debt, the gearing levels marked by overall gearing ratio and TOL/TNW although eased marginally but had remained high at 2.61x and 3.47x respectively as per FY 2021 (provisional) as against 2.95x and 3.96x respectively in FY 2020.

Susceptibility of EBITDA margin to volatility in raw material prices: Cost of production and profit margin are heavily dependent on raw material prices (steel scrap). Furthermore, profitability is linked to the fortunes of the inherently cyclical steel industry, which has strong correlation with overall growth in gross domestic product. Operating performance will remain susceptible to volatility in raw material prices, and offtake by key user sectors. EBITDA margin has been at 3.8-3.9% over the past two fiscals ended 2020.

Geographic concentration risk: SSPL has a customer base located mainly in Ludhiana and Chandigarh which exposes the company to geographic concentration risk. Although, the company has plans to geographically diversify and tie-up with customers spread in whole northern region of India.

Intense competition in the industry: The industry is highly competitive with a large number of organised and unorganised players which limits the bargaining power of the company and places pressure on profitability.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

Cash credit limit was utilized at an average of 79% in the last 12 months ended April 2021. Liquidity is also supported by unsecured loans of Rs 4.08 crore as on March 31, 2020. Cash & bank balance of Rs 2.37 crore as on March 31, 2021 of which Rs 2.12 crore as lien marked FDs. Rs 1.7 crore of WCDL (as Covid19 assistance) and WCTL of 2.96 crore (GECL limit) also support the liquidity.

About the Company

Incorporated in the year 1987, Sharu Steels Private Limited (SSPL) was formerly known as Amita Spinners Pvt Ltd, subsequently the name was changed to Sharu Steels Pvt Ltd on March 17, 1987. It is engaged in the manufacturing of steel ingots and round bars. The manufacturing facility of the company is located at Ludhiana, Punjab. The company has an induction furnace and a rolling mill with a capacity of 30600 TPA as on March 31, 2021. The company is promoted by experienced personnel who carry rich experience of over three decades in the line of business.

Financials (Standalone):

(Rs. Crore)

For the year ended*/As on	31-03-2019	31-03-2020	31-03-2021**
Total Operating Income	168.75	153.20	160.87
EBITDA	6.36	6.10	7.31
PAT	1.16	1.22	1.61
Total Debt	36.42	35.82	37.15
Tangible Net Worth	10.93	12.13	14.22
EBITDA Margin (%)	3.77	3.98	4.54
PAT Margin (%)	0.68	0.80	1.00
Overall Gearing Ratio (x)	3.33	2.95	2.61

*Classification as per Infomerics' standards

** Provisional numbers



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Status of non-cooperation with previous CRA: Issuer not cooperating by BWR vide press release dated January 08, 2021 due to non-availability of information.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	WCDL under CECF	Long Term	1.70	IVR BB+/Stable	--	--	--
2.	WCTL under GECL		2.74		--	--	--
3.	Cash Credit		17.00		--	--	--
4.	ILC/FLC	Short Term	20.00	IVR A4+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Working Capital Demand Loan under CECF	-	-	Apr, 2024	1.70	IVR BB+/Stable
Long Term Bank Facility- Working Capital Term Loan under GECL	-	-	Aug, 2024	2.74	
Long Term Facility- Cash Credit	-	-	Revolving	17.00	
Short Term Bank Facility- ILC/FLC	-	-	Up to 120 days	20.00	IVR A4+

Annexure 2: Facility Wise Lender Details

<https://www.infomerics.com/admin/prfiles/lender-sharu-25-may-21.pdf>