



Press Release

Sonar Casting Limited

July 03, 2020

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	68.25 (enhanced from Rs.19.00)	IVR BBB(CE) /Stable (IVR Triple B [Credit Enhancement] with Stable Outlook) *	Reaffirmed
2	Short Term Bank Facilities	2.70 (enhanced from Rs.1.00)	IVR A3+(CE) (IVR A Three Plus [Credit Enhancement])*	Reaffirmed
	Total	70.95 (Rs. Seventy crore and Ninety Five lakh only)		

**CE Rating based on Corporate Guarantee from K.M. Sugar Mills Limited*

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the above bank facilities of Sonar Casting Limited (SCL) continues to derives strength from unconditional and irrevocable corporate guarantee extended by K M Sugar Mills Limited (KMSM) to the bank facilities of SCL. This corporate guarantee results in an enhancement in the rating of the said instrument to **IVR BBB (CE); Stable/IVR A3+ (CE) (IVR Triple B [Credit Enhancement] with Stable Outlook/ IVR A Three Plus [Credit Enhancement])** against the **unsupported rating of IVR BB; Stable** (IVR Double B with Stable Outlook).

Further, the ratings also continue to derive strength from its experienced promoters, locational advantage and association of reputed project consultants to guide the project implementation. However, these rating strengths are partially offset by ongoing project execution risk, susceptibility of profitability to volatility in raw material prices due to lack of backward integration and cyclicity in the steel industry.

Rating Sensitivities

- **Upward factors**

Timely completion of the project and earning as envisaged

Continuance of support from the corporate guarantor and the promoters

Improvement in the financial risk profile of the corporate guarantor

- **Downward Factors**

Cost overrun or delay in completion of projects



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Failure to achieve envisage revenue

Deterioration in the financial risk profile of the corporate guarantor

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

SCL is currently managed by the promoter directors Mr. Aditya Jhunjhunwala, Mr. Subhash Chandra Agarwal and Mr. Rajiv Gupta who have considerable business experience. Further, they are well supported by a team of experienced and qualified professionals in managing the affairs of the company.

- **Locational advantage**

The manufacturing facility of SCL is being set up at Andal, West Bengal, which is in close proximity to various manufacturers of steel products. Further, the key raw material required by SCL i.e., pig iron and scraps are easily available in and around Andal from areas like Durgapur, Anansol, Dhanbad etc. thereby reducing freight cost. This apart, easy availability of coal and cheap power from India Power and well established connectivity by rail and road, also provides added advantage.

- **Association of reputed project consultants to guide the project implementation**

To guide the project implementation in an effective manner, the company has appointed experienced, reputed and well-known consultants & design companies to guide the project implementation.

- **Corporate guarantee from KMSM**

KMSM, the sister concern of SCL, has extended corporate guarantee for the bank facilities availed by SCL. KMSM is in operation from 1949 in Uttar Pradesh, engaged in the manufacturing of sugar, Industrial Alcohols and power and achieved a turnover of ~Rs.400 crore during FY19. During 9MFY20, the company has already achieved Rs.330.28 crore. The company is listed on BSE and NSE. Going forward, Infomerics believes timely, need based financial support will also be extended by the corporate guarantor, in case of pressure on cash flows of SCL.



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Key Rating Weaknesses

- **Project execution risk**

The project has significant implementation risk, as of now, due to its current nascent stage of project execution. Given the targeted timeline for commencement of operation, the project is exposed to the risk of time overrun and consequential cost overrun due to nationwide lockdown for Covid-19 pandemic. However, financial closure has already been achieved.

- **Susceptibility of profitability to volatility in raw material prices due to lack of backward integration**

As pig iron and scraps are key raw materials for the company. Price of the same are very volatile. Raw-material cost accounted over 70% of total cost of sales in iron and steel industry and backward integration plays vital role in the profitability. Adverse price movement of raw materials will directly hit the profitability of the SCL.

- **Cyclicalities in the steel industry**

The steel industry is characterised by its inherent cyclicalities. The industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. This is likely to keep the profitability and cash flows of all the players in the industry, including SCL, volatile going forward.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of KM Sugar Mills Limited (KMSM), provider of unconditional and irrevocable corporate guarantee to the bank facilities of SCL.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)

Financial Ratios & Interpretation (Non-Financial Sector)



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Liquidity: Adequate

The project is in its implementation stage and is expected to commence operations from August, 2020 onwards. The financial closure has already been achieved. The proposed loan is to be repaid in 93 monthly instalments commencing from September, 2021 onwards. However, the support from the corporate guarantor, KM Sugar Mills Limited and presence of resourceful promoters do not indicate much difficulty for the company in meeting its debt obligations in the medium term and the liquidity of the company is expected to remain adequate.

About Sonar Casting Limited

Incorporated on February, 2019, Sonar Casting Limited (SCL) was set up with the objective to manufacture Ductile Iron & Casting products like manhole covers, pipes etc. The company has acquired a plot of land measuring ~7.5 acres at Andal, Bardhaman district in West Bengal for setting up the manufacturing facility. The total cost of the project is envisaged at Rs.78.40 crore. The company is expecting that the project shall be completed by July, 2020 and expected COD can be achieved by August 2020.

SCL is currently managed by the promoter directors Mr. Aditya Jhunjunwala with other two directors, who have considerable experience in the related industry. They are supported by a team of experienced and qualified professionals in managing the affairs of the company.

About K M Sugar Mills Limited

KMSM is in operation from 1949 in Uttar Pradesh, engaged in the manufacturing of sugar, Industrial Alcohols and power and achieved a turnover of ~Rs.400 crore during FY19. During 9MFY20, the company has already achieved Rs.330.28 crore. The company is listed on BSE and NSE.

Financials of KMSM (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Income	499.31	404.21
EBITDA	17.21	38.01
PAT	22.58	27.01
Total Debt	98.73	108.54
Tangible Net worth	83.53	169.12
EBITDA Margin (%)	3.72	9.74
PAT Margin (%)	4.48	6.63



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Overall Gearing Ratio (x)	1.18	0.64
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*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 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	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.	Term Loan	Long Term	52.50	IVR BBB(CE) /Stable*	IVR BBB(CE) /Stable*	-	-	-
2	Cash Credit	Long Term	15.75	IVR BBB(CE) /Stable*	IVR BBB(CE) /Stable*	-	-	-
3	Bank Guarantee	Short Term	2.70	IVR A3+(CE)*	IVR A3+(CE)*	-	-	-

* Based on Corporate Guarantee from K.M. Sugar Mills Limited

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.

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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 Fund Based Limits – Term Loan	-	-	Mar 2029	52.50	IVR BBB(CE) /Stable*
Long Term Fund Based Limits - Cash Credit	-	-	-	15.75	IVR BBB(CE) /Stable*
Short Term Non-Fund Based Limits - BG	-	-	-	2.70	IVR A3+(CE)*

* Based on Corporate Guarantee from K.M. Sugar Mills Limited

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/lender-sonar-3-7-21.pdf>