



Press Release

Sonar Casting Limited (SCL)

September 27, 2021

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	68.25	IVR BBB+ (CE) /Positive (IVR Triple B Plus [Credit Enhancement] with Positive Outlook)*	Revised
Short Term Bank Facilities	2.70	IVR A2 (CE) (IVR A Two [Credit Enhancement])*	Revised
Total	70.95 (Seventy crore and Ninety Five lakh)		

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

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings revision to the above bank facilities of Sonar Casting Limited (SCL) continues to derive 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 above bank facilities to **IVR BBB+ (CE); Positive/IVR A2 (CE)** (IVR Triple B Plus [Credit Enhancement] with Positive Outlook/ IVR A Two [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 backed by Strong Management Team and Locational advantage. However, rating continues to remain constrained on account of Susceptibility of Profitability to Volatility in Raw Material Prices due to Lack of Backward Integration and Cyclicity in the Steel Industry.

Key Rating Sensitivities:

Upward Factors



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- Sustained & Significant improvement in revenue & profitability margins leading to improvement in the debt protection parameters and/or improvement in financial risk profile of the corporate guarantor may lead to a positive rating action.

Downward Factors

- Any deterioration in revenue and/or profitability margin leading to deterioration in debt coverage indicators and/or deterioration in the financial risk profile of the corporate guarantor may lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters backed by Strong Management Team

SCL is currently managed by the promoter directors Mr. Aditya Jhunjunwala, 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 has been 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 cheap power from India Power and well established connectivity by rail and road, also an added advantage.

Corporate Guarantee from KMSM

KMSM, the group 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.500 crore during FY21. The company is listed on BSE and NSE. Going forward, Infomerics



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believes timely, need based financial support will also be extended by the corporate guarantor, in case of pressure on cash flows of SCL.

Key Rating Weaknesses

Susceptibility of Profitability to Volatility in Raw Material Prices due to Lack of Backward Integration

Pig iron and scraps are key raw materials for the company, prices of which are volatile in nature. Raw-material cost accounts 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 can directly affect the profitability of the SCL.

Cyclicality in the Steel Industry

The steel industry is characterised by its inherent cyclicality. 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)

Liquidity – Adequate

The liquidity of the company is expected to remain satisfactory in the near to medium term in absence of any significant term debt repayment. The average closing month end bank limit



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utilisation for the last 12 months ended June 2021 was low at 24%. The projected DSCR of 1.7x indicates comfortable liquidity position of the company in meeting its debt obligations. Further, 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 the Company

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 around Rs.78.40 crore, which is financed through Equity capital Rs.5.50 crore, Preference share capital Rs.20.40 crore and term loans from bank of Rs.52.50 crore. Company has achieved COD for one of two moulding machines in October 2020, with installed capacity of 1000MT per month and have achieved production of 3221MT in FY21. Company achieved COD of line 2 in April 2021, having installed capacity of 1000MT per month.

SCL is currently managed by the promoter directors Mr. Aditya Jhunhunwala 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.500 crore during FY21. The company is listed on BSE and NSE.

Financials of KMSM (Standalone)*:

	(In Crore)	
For the year ended / As on	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	531.35	502.73
EBITDA	50.19	55.57



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PAT	18.43	26.24
Total Debt	174.12	205.41
Adjusted Tangible Net-Worth	187.28	213.43
Ratios		
EBITDA Margin (%)	9.45	11.05
PAT Margin (%)	3.40	5.17
Overall Gearing Ratio (x)	1.38	1.34

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (July 03, 2020)	Date(s) & Rating(s) assigned in 2020-21 (June 22, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	52.50	IVR BBB+ (CE)/ Positive*	IVR BBB (CE)/ Stable*	IVR BBB(CE)/ Stable*	--	--
2.	Cash Credit	Long Term	15.75	IVR BBB+(CE)/ Positive*	IVR BBB(CE)/ Stable*	IVR BBB(CE)/ Stable*	--	--
3.	Bank Guarantee	Short Term	2.70	IVR A2 (CE)*	IVR A3+ (CE)*	IVR A3+ (CE)*	--	--

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

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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



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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 (INR Crore)	Rating Assigned/ Outlook
Term Loan	-	-	FY30	52.50	IVR BBB+ (CE)/ Positive*
Cash Credit	-	-	-	15.75	IVR BBB+ (CE)/ Positive*
Bank Guarantee	-	-	-	2.70	IVR A2 (CE)*
Total				70.95	

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

Annexure 2: List of companies considered for consolidated analysis: Nil

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Sonar-Casting-Lenders-27sep21.pdf>

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan	Simple



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2.	Cash Credit	Simple
3.	Bank Guarantee	Simple

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.

