



## Infomerics Valuation And Rating Pvt. Ltd.

### Press Release

### Santpuria Alloys Private Ltd.

May 30, 2018

### Rating

Instrument / Facility	Amount	Rating	Rating Action
Long Term Fund Based Limits	Rs.15.00 crores	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Short Term Non-Fund Based Limits	Rs.6.00 crores	IVR A3+ (IVR A Three Plus)	Assigned
Proposed Fund Based /Non-Fund Based Bank Facilities (Long Term / Short Term)	Rs.1.50 crores	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) and IVR A3+ (IVR A Three Plus)	Assigned

### Details of Facility are in Annexure 1

### Detailed Rationale

The ratings derive comfort from the experience of the promoters with long track record, synergies with Mongia Steel Limited, coal linkage resulting in steady supply of coal and cost advantage, comfortable gearing and debt protection metrics and improving capacity utilisation. The ratings are constrained by small scale of operations, working capital intensive nature of operations, cyclicity in the steel industry and volatility in the prices of raw materials and finished goods. Growth in scale of operations, profitability and working capital management are the key rating sensitivities.

### List of Key Rating Drivers

- Experienced promoter with long track record
- Synergies with Mongia Steel Limited
- Coal linkage resulting in steady supply of coal and cost advantage
- Improving capacity utilisation
- Comfortable gearing and debt protection metrics coupled with no long term borrowings
- Small scale of operations



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- Working capital intensive nature of operations
- Volatility in the prices of raw materials and finished goods
- Cyclical nature in the steel industry

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### **Experienced promoter with long track record**

Mr. Gunwant Singh Saluja has around 35 years of experience in the steel industry. Mongia Steel Ltd (MSL), which is the flagship company of the group, was promoted in 1995. In 2004, Santpuria Alloys Private Ltd (SAPL) was set-up to manufacture sponge iron in an effort to achieve backward integration for MSL. The entire production of SAPL is sold to MSL.

##### **Synergies with Mongia Steel Limited**

The company sells its entire output to MSL as it acts as a backward integration arm of MSL. The operations of both the company are overseen by Mr. Gunwant Singh Saluja, who holds a majority stake in both the companies.

##### **Coal linkage resulting in steady supply of coal and cost advantage**

The company has a tie-up with Central Coalfields Ltd (CCL) and Eastern Coalfields Ltd (ECL) for supply of coal. The coal linkage is for 36000 MT of coal per year. The coal procured through the linkage with CCL and ECL fulfils ~90% of the requirement of SAPL. On account of the coal linkage, the coal cost works to be lower than the market rates at around Rs.500-Rs.1000 per MT.

##### **Improving capacity utilisation**

The capacity utilisation for the manufacturing facility SAPL has improved over the last few years from 54% in FY16 to 61% in FY18 due to increase in demand from MSL.

##### **Comfortable gearing and debt protection metrics coupled with no long term borrowings**

SAPL does not have any long term debt on its books. The debt protection metrics for the company are comfortable as on March 31, 2018 (provisional), with the interest coverage ratio and overall gearing ratio standing at 2.41x and 0.52x, respectively, as compared to



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2.21x and 0.62x, as on March 31, 2017. Total Debt to Gross Cash Accruals as on March 31, 2018 (provisional) stood at 5.41x.

### **Key Rating Weaknesses:**

#### **Small scale of operations**

The company reported PAT of Rs.1.3 crore on total net sales of Rs.54.7 crore for FY18 (provisional), implying small scale of operations. Trading contributed around 29% of the sales of SAPL for FY17. The total income of the company decreased by 16.68% in FY18 (provisional) as compared to FY17, primarily as the management ceased trading activity in FY18. The EBITDA margin stood at 9.61% for FY18 (provisional) as compared to 8.57% in FY17.

#### **Working capital intensive nature of operations**

The operations of SAPL are reliant on working capital funds, due to the inventory holding period as well as the credit period extended to MSL. The operating cycle for the company has increased to 54 days for FY18 (provisional) from 35 days in FY17. The average utilisation of the working capital limit was around 90% for 12 month period from April 2017 to March 2018.

#### **Volatility in the prices of raw materials and finished goods**

The costs of raw materials (i.e., iron pellets and iron ore) and finished goods are volatile in nature. The price of iron pellets which is the main raw material required by SAPL fell by around 6% in FY17 as compared to FY16, but increased by around 23% in FY18. Similarly, the price realisation of sponge iron fell by around 12% in FY17 as compared to FY16 and increased by around 8% in FY18. SAPL's profitability is susceptible to any fluctuation in the prices of raw materials and/or its finished goods.

#### **Cyclicality in the steel industry**

The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. But, the outlook for the steel industry in the short to medium term appears to be good as the steel prices have hardened in the recently, coupled with robust demand in the domestic markets in India.



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### Analytical Approach & Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation – Non-Financial Companies

Parent and Group Support

### About the Company

Santpuria Alloys Private Ltd (SAPL) was incorporated in 2004, with Mr. Gunwant Singh Saluja and Mr. Balvinder Singh (a relative) as Directors. SAPL was set-up to facilitate as backward integration for the billet, rod and wire production in MSL. SAPL is mainly involved in the manufacture of sponge iron from iron pellets. The entire production of SAPL is sold to MSL. Trading contributed around 30% of the sales of SAPL for FY17. However, SAPL has ceased its trading activity from FY18 onwards.

### Financials (Standalone)

(Rs. Crores)

For the year ended / Rs. Crs	31-03-2017	31-03-2018
	Audited	Provisional
Total Operating Income	65.7	54.7
EBITDA	5.6	5.3
Interest	2.1	2.2
PAT	1.1	1.3
Total Debt	15.9	13.9
Tangible Net worth	25.6	26.9
<b><u>Ratios (%)</u></b>		
a. EBITDA Margin	8.6	9.6
b. PAT Margin	1.7	2.4
c. Overall Gearing ratio	0.6	0.5

*Classification as per Infomerics standards*

**Status of non-cooperation with previous CRA:** Credit Analysis & Research Limited (CARE Ratings) and CRISIL which have earlier rated the company, have classified it as 'ISSUER NOT COOPERATING' category due to non-submission of information as per Press Release dated April 19,2017 and April 27, 2018 respectively.



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Any other information: Nil

### Disclosure

#### Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits	Long Term	15.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	--	--	--
2.	Short Term Non-Fund Based Limits	Short Term	6.00	IVR A3+ (IVR A Three Plus)	--	--	--
3.	Proposed Fund Based /Non-Fund Based Bank Facilities (Long Term / Short Term)	Long Term / Short Term	1.50	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) and IVR A3+ (IVR A Three Plus)	--	--	--

**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](http://www.infomerics.com).

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#### About Infomerics:



## Infomerics Valuation And Rating Pvt. Ltd.

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 Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
Long Term Fund Based Limits	-	-	-	15.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
Short Term Non-Fund Based Limits	-	-	-	6.00	IVR A3+ (IVR A Three Plus)
Proposed Fund Based /Non-Fund Based Bank Facilities (Long Term / Short Term)	-	-	-	1.50	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) and IVR A3+ (IVR A Three Plus)