

Press Release

S. Pyarelal Ispat Private Limited

October 7, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating	Rating Action
1.	Long Term Fund Based Facilities – Cash Credit	14.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
2.	Long Term Debt - Term Loan	3.27	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	
	Total	17.27		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of rating derives strength from experienced promoters and management, strategic location of the plant, substantial increase in scale of operation, improving gearing & debt coverage indicators and efficient working capital management. The rating however is constrained by moderate profitability margins, volatility in raw material prices & finished goods and high competition & cyclicity in the steel industry.

Key Rating Sensitivities

Upward movement in rating – Significant improvement in profitability margins and efficient management of working capital could lead to a positive rating action

Downward movement in rating – Any debt funded capex resulting in deterioration of overall gearing and debt coverage indicators and decline in profitability margins would call for a negative rating action

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoters and management

Mr. Brijlal Goyal has been in the plastic business since 1992 and in the steel industry since 2006. The second generation entrepreneurs, Mr. Manoj Kumar Goyal and Mr. Suresh Kumar

Goyal (sons of Mr. Brijlal Goyal) comprise the Board of Directors of the company. Both the directors have vast experience of around two decades in the steel and allied industry. Further, the key managerial personnel of the company are also well-qualified and experienced.

Strategic location

The manufacturing facility of SPIPL is strategically located in Urla industrial area, situated close to Raipur (capital of Chhattisgarh). SPIPL can leverage its locational advantage to sell its products across the country. A significant proportion (approx. 45-50%) of the sponge iron requirement of the facility is met from its group company, Sambhv Sponge Power Pvt. Ltd.

Substantial increase in scale of operation

The total operating income (TOI) of the company increased considerably from Rs.104.98 crore in FY17 to Rs.177.26 crore in FY18 and to Rs.247.65 crore in FY19 due to capex undertaken in the last three years coupled with increase in capacity utilization thereafter. The increase in TOI (~40%) in FY19 could be primarily attributed to increase in sales (~25%) and increase in sales price realization (18%-20% across the product segments).

Improving gearing and debt coverage indicators

The overall gearing and other debt coverage indicators of the company have significantly improved over the last three years. The overall gearing ratio improved from 2.35x as on March 31, 2017 to 1.46x as on March 31, 2019. TOL/TNW at below 2x as on March 31, 2019 indicates comfortable leverage position on an overall basis. The interest coverage was comfortable at 5.69x in FY19 (P.Y: 2.39x).

Efficient working capital management

The operating cycle for the company has improved considerably in last three years from 41 days as on March 31, 2017 to 19 days as on March 31, 2019. This is due to significant improvement in the debtors' collection days and average inventory holding days. Also, average utilization of working capital limits was ~60.8% during last 12 months ended July 31, 2019.

Key Weaknesses

Moderate profitability margins

The profitability margins of the company are moderate. The EBITDA margin of the company has been in the range of 3.5%-4.5%. However, the PBT and PAT margins of SPIPL have improved significantly over the last three years (PAT margin improved from 0.18% in FY17 to 1.89% in FY19) due to economies of scale coupled with control over interest costs. However, the margins continue to remain moderate.

Volatility in the prices of raw materials and finished goods

The price of steel has seen a lot of volatility over the last three years. The cost of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

High competition and cyclicity in the steel industry

The Brijdham group mainly operates in Chhattisgarh, which is quite known in the domestic steel & ancillary segment. SPIPL faces stiff competition not only from the established players, but also from the unorganised sector players as there is a low level of product differentiation. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices.

Analytical Approach & Applicable Criteria

Standalone

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity

The liquidity profile of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company maintains moderate cash balances to meet its liquidity requirements. The average utilization of working capital limits remained moderate (~60%) during the 12 months ended July 31, 2019. Also, projected DSCR and ICR of 4.87x and 11.47x respectively indicate adequate liquidity position of SPIPL in meeting its debt obligations.

About the Company

S. Pyarelal Ispat Pvt Ltd. (SPIPL) was incorporated as Brijdham Polythene Pvt. Ltd. by Mr. Brijlal Goyal and his family in February 2009. The name of the company was changed to S. Pyarelal Ispat Pvt. Ltd. in November 2009, when the promoters set up a mild steel ingot manufacturing facility in Urla industrial area near Raipur under this company. The company commenced operation only in September 2010 with a capacity of 30,000 MTPA.

Earlier, SPIPL used to manufacture M.S ingots. However, the company switched over to manufacturing M.S. billets since June 2016. The company installed equipment for manufacturing billets and a rolling mill (for structure products). The operations of SPIPL are fully integrated and ISO 9001:2015 certified.

Financials (Standalone)

(Rs. Crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	177.26	247.65
EBITDA	6.47	10.67
PAT	0.71	4.68
Total Debt	25.19	23.65
Tangible Networth	11.54	16.19
EBITDA Margin (%)	3.65	4.31
PAT Margin (%)	0.40	1.89
Overall Gearing Ratio (x)	2.18	1.46

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	14.00	IVR BBB- /Stable Outlook	IVR BBB- /Stable Outlook (Sep 26, 2018)	--	--
2.	Long Term Debt – Term Loan	Long Term	3.27	IVR BBB- /Stable Outlook	IVR BBB- /Stable Outlook (Sep 26, 2018)	--	--

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. 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 Reaffirmed / Outlook
Cash Credit	--	9.60% p.a.	--	14.00	IVR BBB- /Stable Outlook
Term Loan	--	--	Dec 2023	3.27	IVR BBB- /Stable Outlook