

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Santpuria Alloys Private Limited

November 18, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Term Loan	2.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Reaffirmed
Long Term Fund Based Facilities- Cash Credit	11.50	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Reaffirmed
Short Term Non Fund Based Bank Facilities – Bank Guarantee	2.21	IVR A3+ Plus(IVR A Three Plus)	Reaffirmed
Short Term Non Fund Bank Facilities – Letter of Credit	6.00	IVR A3+ Plus(IVR A Three Plus)	Reaffirmed
Proposed fund based / non fund based	0.79	IVR BBB /Stable (IVR Triple B with Stable Outlook) and IVR A3+ (IVR Single A Three Plus)	Reaffirmed
Total	22.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Santpuria Alloys Private Limited (SAPL) continues to derive comfort from its experienced promoters with long track record, synergies with its group company Mongia Steel Limited (MSL), coal linkage resulting in steady supply of coal and cost advantage and improvement in capacity utilisation. The ratings also factor in its comfortable gearing with satisfactory debt protection metrics. However, the rating strengths are partially offset by its small scale of operations, volatility in the prices of raw materials, elongation in the operating cycle and cyclicalities in the steel industry.

Key Rating Sensitivities

Upward factors

- Increase in debt servicing capacity
- Reduce dependence on MSL

Downward factors

- Moderation in profitability affecting the cash accruals
- Deterioration in the overall gearing to more than 1x

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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter with long track record

Mr. Gunwant Singh Saluja has close to four decades of experience in the steel industry. Mongia Steel Ltd (MSL), which is the flagship company of the group, was promoted in 1995. In 2004, SAPL was set-up to manufacture sponge iron in an effort to achieve backward integration for Mongia Steel Ltd (MSL).

Synergies with Mongia Steel Limited

SAPL is mainly involved in the manufacture of sponge iron from iron pellets. SAPL employs a kiln to melt the iron ore / pellets to manufacture sponge iron. Its entire production is consumed by MSL in its manufacturing process. The entire production of SAPL is sold to MSL. A majority of the sponge iron requirement for the MSL plant is fulfilled by the plant of SAPL.

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 18000 MT of coal per year. 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 63% in FY19 due to increase in demand from MSL.

Comfortable gearing and debt protection metrics

The debt protection metrics for the company are comfortable as on March 31, 2019, with the interest coverage ratio and overall gearing ratio standing at 3.10x and 0.49x, respectively, as compared to 2.74x and 0.01x, as on March 31, 2018. Total Debt to Gross Cash Accruals as on March 31, 2019 stood at 4.31x.

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Key Rating Weaknesses

Small scale of operations

The scale of operations of the company continued to remain small with a total operating income of Rs.78.98 crore. However, the company has achieved a y-o-y growth of about ~44% in FY19. The EBIDTA margin of the company moderated from 9.33% in FY18 to 6.61% in FY19 mainly due to step rise in coal prices.

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 increased by around 12% in FY18 and decreased by 5% in FY19. Similarly, the price realisation of sponge iron increased by around 10% in FY18 and increased by 27% in FY19. SAPL's profitability is susceptible to any fluctuation in the prices of raw materials and/or its finished goods.

Elongation in the operating cycle

The operating cycle for the company has increased to 81 days for FY19 from 68 days in FY18. The average utilisation of the working capital limit was around 82% for the past 12 months period ended on September, 2019.

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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Group Support

Liquidity – Adequate

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SAPL is expected to have adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations in next three fiscals with no further debt addition programme. Further, its bank limits are utilized to the extent of ~82% indicating a moderate liquidity buffer. Moreover with its comfortable overall gearing at 0.49x as on March 31, 2019 the company has sufficient gearing headroom.

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.

Financials (Standalone): The financials for FY19 is furnished below:

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	54.73	78.98
EBIDTA	5.11	5.06
PAT	1.15	1.49
Total Debt *	14.16	13.90
Tangible Net worth	26.73	28.16
EBIDTA Margin (%)	9.33	6.41
PAT Margin (%)	2.10	1.77
Overall Gearing Ratio (x) *	0.53	0.49

* SAPL has reported total income of Rs. 44.1 crores for half year FY20. (which accounts for 56% of the total operating income of Rs. 78.98 crore in completed year FY19).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. 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.	Long Term Fund Based Limits - Term Loan	Long Term	2.00 (Previous rated amount: 0)	IVR BBB / Stable Outlook	-	-	-

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Sr. 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
2.	Long Term Fund Based Limits - Cash Credit	Long Term	11.50 (Previous rated amount: 15.00)	IVR BBB/ Stable Outlook	IVR BBB / Stable Outlook (May 30, 2018)	-	-
3.	Short Term Non Fund Based Limits - Bank Guarantee	Short Term	2.21 (Previous rated amount: 3.00)	IVR A3+	IVR A3+ (May 30, 2018)	-	-
4.	Short Term Non Fund Based Limits – Letter of Credit	Short Term	6.00 (Previous rated amount: 3.00)	IVR A3+	IVR A3+ (May 30, 2018)	-	-
5.	Proposed fund based / non fund based	Long Term/ Short Term	0.79 (Previous rated amount: 1.50)	IVR BBB/ Stable Outlook and IVR A3+	IVR BBB/ Stable Outlook and IVR A3+		

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 Bank Facilities - Term Loan	-	-	March, 2026	2.00 (Previous rated amount: 0)	IVR BBB/ Stable Outlook
Long Term Bank Facilities - Cash Credit	-	-	-	11.50 (Previous rated amount: 15.00)	IVR BBB/ Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	2.21 (Previous rated amount: 3.00)	IVR A3+
Short Term Bank Facilities – Letter of Credit	-	-	-	6.00 (Previous rated amount: 3.00)	IVR A3+
Proposed fund based / non fund based	-	-	-	0.79 (Previous rated amount: 1.50)	IVR BBB/ Stable Outlook and IVR A3+