

Press Release

Suncity Sheets Private Limited

June 20, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Limits	29.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Long Term Debt - Term Loan	17.69	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
3.	Short Term Non-Fund Based Facilities	33.00	IVR A2+ (IVR A Two Plus)
	Total	79.69	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experienced promoters, diversified product portfolio, improving capacity utilization, healthy growth in operation, comfortable gearing and debt coverage indicators and established relationship with clients and suppliers. However, the rating is constrained by moderate profitability margins, exposure to foreign exchange fluctuations and high competition and cyclical in the steel industry. Input price volatility, scale of operation and profitability and foreign exchange volatility are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters

Suncity group was promoted by Mr. Ram Avtar Agarwal, a first generation entrepreneur. He has over four decades of industry experience. His sons, Mr. Mukesh Agrawal (MD) and Mr. Harish Agarwal are Directors in the company. Both of them have been in the steel manufacturing business for about 25 years.

Diversified product portfolio

The group has a diversified portfolio of stainless steel products comprising SS sheets, SS pipes, SS tubes, SS coils, SS circles and stainless steel utensils. The products of the company find use in a variety of applications like power plants, oil and gas industries, automobiles and ancillaries, kitchenware etc. This enables the company to considerably insulate itself from any sectoral volatility.

Improving capacity utilisation

The capacity utilisation for the manufacturing facility of SSPL improved in the last year leading to increase in scale of operation. The overall capacity utilisation of the SSPL facility improved from 71.37% in FY18 to 83.80% in FY19.

Healthy growth in operation

After experiencing a marginal fall in turnover in FY18 from FY17, the group witnessed a healthy growth in operation with increase of about 40% in turnover from Rs.433.64 crore in FY18 to Rs.607.48 crore in FY19 due to increase in the scale of operation, on the back of higher capacity utilisation and increased demand for stainless steel.

Comfortable gearing and debt coverage indicators

The overall gearing ratio of the group was comfortable at 0.85x as on March 31, 2019 (0.83x as on March 31, 2018). Total debt to gross cash accruals at 3.77x (PY- 4.13x) and other debt coverage indicators of the company were also comfortable as on March 31, 2019. The interest coverage ratio stood at 6.28x in FY19, which has improved from 5.38x in FY18.

Established relationships with clients and suppliers

The group has established relationship with its clients. The top five clients of SSPL contribute to around 50% of the total FY19 sales indicating a moderately diversified client base. The company has long term business relation and supply arrangements with its vendors for procuring the same.

Key Rating Weaknesses

Moderate profitability margins

The profitability margins of the company are moderate. The EBITDA margin and PAT margin of the company have been in the range of 6.5%-8.0% and 4.0%-4.5% respectively, over the last three years. However, the margins have improved in FY19 in comparison with the previous year.

Exposure to foreign exchange fluctuations

As the company imports a significant proportion of its raw material requirements and exports account only for ~6% of the total revenue, the company is exposed to foreign currency fluctuation risk. The company generally hedges around 75% of its net exposure. In the light of the depreciation of the rupee over the last four years there appears to be forex risk in the foreseeable future. However, this risk is mitigated by hedging to the extent of 75%.

High competition and cyclicity in the steel industry

The company faces stiff competition from globally established steel players. As significant amount of raw material is imported, the company is exposed to risks such as global steel industry performance, local regulations/duties, trade wars, etc. However, the company has been able to establish a strong presence with the quality of its products. 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. But the outlook for the steel industry in the short to medium term appears to be positive.

Analytical Approach & Applicable Criteria

Consolidated financials – For arriving at the rating, Infomerics has combined the financial and business risks of all four companies of Suncity group i.e. Suncity Sheets Private Limited, Suncity Alloys Private Limited, Suncity Metals Private Limited and Suncity Strips and Tubes Pvt. Ltd.

Rating methodology for Manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity

The group has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operation. The company maintains sufficient cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained on the lower side during the 12 months ended March 31, 2019.

About the Company

Suncity Sheets Private Limited (SSPL) was promoted by Mr. Ram Avtar Agarwal, a first generation entrepreneur. The company commenced operation of manufacturing stainless steel products near Jodhpur in 1992. The various products manufactured by the company include stainless steel sheets, SS pipes, SS tubes, SS coils, SS circles and stainless steel utensils. The products of the company find use in a variety of applications like power plants, oil and gas industries, heat exchangers, kitchenware etc. At present, the company's products are used domestically as well as exported to countries like Brazil, Turkey and few South East Asian countries. Presently, Mr. Mukesh Agarwal is the Managing Director of the company having overall control on the affairs of the company. The manufacturing plant of SSPL located at Boranada industrial area (Jodhpur) is ISO 9001:2015 certified.

Financials*

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Combined)	(Provisional)
Total Operating Income	433.64	607.48
EBITDA	28.90	42.03
PAT	12.74	21.04
Total Debt	83.06	107.89
Tangible Networth	100.26	127.32
Ratios		
EBITDA Margin (%)	6.67	6.92
PAT Margin (%)	4.05	4.52
Overall Gearing Ratio (x)	0.83	0.85

Note: Classification as per Infomerics' standards

*Infomerics has combined the financials of Suncity Sheets Private Limited, Suncity Alloys Private Limited, Suncity Metals Private Limited and Suncity Strips and Tubes Pvt. Ltd.

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	29.00	IVR A-/ Stable Outlook	--	--	--
2.	Term Loan	Long Term	17.69	IVR A-/ Stable Outlook	--	--	--
3.	Non Fund Based Limits - LC	Short Term	33.00	IVR A2+	--	--	--

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 Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	--	--	--	29.00	IVR A-/Stable Outlook
Long Term Debt - Term Loan	--	--	March 2026	17.69	IVR A-/Stable Outlook
Short Term Non-Fund Based Limits – Letter of Credit	--	--	--	33.00	IVR A2+