

**Press Release**

**Suncity Strips & Tubes Private Limited**

**July 1, 2019**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crores)</b>	<b>Rating Assigned</b>
1.	Long Term Fund Based Limits	24.50	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Short Term Non-Fund Based Facilities	45.00	IVR A2+ (IVR A Two Plus)
3.	Proposed Short Term Bank Facilities	0.50	IVR A2+ (IVR A Two Plus)
	<b>Total</b>	<b>70.00</b>	

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

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

**List of key rating drivers with detailed description**

**Key Rating Strengths**

**Experienced promoters**

Suncity group was promoted by Mr. Ram Avtar Agarwal after spending over a decade in the chemical manufacturing sector. Suncity Strips and Tubes Private Limited is a part of the group, which commenced operation in 2009. Mr. Agarwal has over four decades of industry experience. His sons, Mr. Mahaveer Agarwal (MD) and Mr. Harish Agarwal are Directors in the company. Both of them have been in business for about 25 years.

## **Diversified product portfolio**

The group has a diversified portfolio of stainless steel products comprising stainless steel tubes, pipes, coils and circles. The products of the company find use in a variety of applications like power plants, oil and gas industries, heat exchangers, 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 SSTPL improved in the last year leading to increase in scale of operation. The overall capacity utilisation of SSTPL facility improved from 56.51% in FY18 to 76.21% 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 group 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 SSTPL contribute to around 96% of the total FY19 sales indicating a concentrated client base. The company has long term business relation and supply arrangements with its vendors for procuring the raw materials.

## **Key Rating Weaknesses**

### **Moderate profitability margins**

The profitability margins of the group are moderate. The EBITDA margin and PAT margin of the group has been in the range of 6.5%-8% and 4%-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**

Since the company imports a significant proportion of its raw material requirements with no exports, the company is exposed to foreign currency fluctuation risk. The company generally hedges around 75% of its net exposure. In light of depreciation of rupee over the last four years there appears to be risk in the foreseeable future. However, this risk is mitigated by hedging to the extent of 75%.

### **High competition and cyclicality 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 Strips and Tubes Pvt. Ltd., Suncity Sheets Private Limited, Suncity Alloys Private Limited and Suncity Metals Private Limited.

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 moderate during the 12 months ended March 31, 2019.

## About the Company

Suncity Strips and Tubes Private Limited (SSTPL) were incorporated by Mr. Mahaveer Agarwal and Mr. Harish Agarwal in 2009. The company is engaged in manufacturing of stainless steel (SS) tubes, pipes, coils and circles. The products of the company find use in a variety of applications like power plants, oil and gas industries, heat exchangers, automobiles and ancillaries, kitchenware etc. The company is a part of Jodhpur based Suncity group, established by Mr. Ram Avtar Agarwal (father of Mr. Mahaveer Agarwal and Mr. Harish Agarwal) in 1992. Mr. Mahaveer Agarwal is the Managing Director having overall control on affairs of the company (SSTPL). The manufacturing plant of SSTPL situated at Boranada industrial area (Jodhpur) is ISO 9001:2015 certified.

## **Financials\***

**(Rs. crore)**

<b>For the year ended* / As On</b>	<b>31-03-2018</b>	<b>31-03-2019</b>
	<b>(Combined)</b>	<b>(Provisional)</b>
Total Operating Income	433.64	607.48
EBITDA	28.90	42.03
PAT	12.74	21.04
Total Debt	83.06	107.89
Tangible Networkth	100.26	127.32
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 Strips and Tubes Pvt. Ltd., Suncity Sheets Private Limited, Suncity Alloys Private Limited and Suncity Metals Private Limited.

**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	24.50	IVR A-/ Stable Outlook	--	--	--
2.	Non Fund Based Limits - LC	Short Term	45.00	IVR A2+	--	--	--
3.	Proposed Based Facilities	Short Term	0.50	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](http://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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an ‘as is where is’ basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Fund Based Limits – Cash Credit	--	--	--	24.50	IVR A-/Stable Outlook
Short Term Non-Fund Based Limits – Letter of Credit	--	--	--	45.00	IVR A2+
Proposed Short Term Bank Facilities	--	--	--	0.50	IVR A2+