

Eloquent Steels Private Limited

December 14, 2018

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	65.00 (including proposed limits of Rs. 30.00 crore)	IVR BBB-(SO)/Stable (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*	Assigned
Short Term Bank Facilities	25.00 (including proposed limits of Rs. 15.00 crore)	IVR A3(SO) (IVR Single A Three [Structured Obligation])*	Assigned
Total	90.00		

*Based on an unconditional and irrevocable shortfall undertaking of Shakambhari Ispat & Power Ltd (SIPL).

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Eloquent Steels Private Limited (ESPL) derive comfort from itsexperienced promoters,short fall cash flow support from the flagship company (SIPL) of the promoter, COD being achieved and hence, no project execution risk, locational advantage and sourcing of cheaper power, and low gearing. However, the rating is constrained by nascent stage of operation, raw material availability & susceptibility to price escalation, cyclicity in Steel Industry.Credit profile of guarantor company, stabilisation of operation and achieving envisaged results and profitabilityare the key rating sensitivities.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters

The current promoter of ESPL, Mr. Deepak Kumar Agarwal, is also the promoter of Shakambhari Ispat & Power Ltd., an established TMT Bar, Wire rod and Billet manufacturing company, based out of Kolkata. He has been in the business of iron and steel for more than 25 years.

Short fall cash flow support from the flagship company (SIPL) of the promoter

The entire bank facilities of ESPL (including term loan, cash credit and non-funded letter of credit) is backed by an unconditional and irrevocable shortfall undertaking stating that any shortfall in debt

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obligation of ESPL will be met by SIPL. SIPL is the flagship company of the promoter. SIPL is one of the leading manufacture of Iron & Steel products in eastern India, operating an integrated steel plant with captive power generating facilities.

COD is achieved and hence, no project execution risk

ESPL had acquired plants of Hira Concast Ltd (HCL) and Impex Steel Ltd (ISL) through auction from Official Liquidator of Honourable High Court, Kolkata and also through bidding in auction notice issued by the lenders. Both the plants consisted of ferro-alloy manufacturing facilities as well as steel melting shop. It has set up sub-merged electric arc furnaces to produce ferro alloys, by refurbishing the existing plant facilities and adding in new machineries.. The project received its COD on 1st November, 2018.

Locational advantage and sourcing of cheaper power

Both the plants are adjacent to each other and are located at Mouza, Village Nakarajoria, Dendua, P.O-Salanpur, District- Burdwan, West Bengal, which is located close to Maithan Hydel Sub-Station of DVC. The power cost of DVC is low in comparison to other power utilities which is likely to result in low operating cost for ESPL.

Low gearing

The entire project was estimated to be completed at an aggregate cost of Rs.76.52 crore, funded through equity of Rs.45.02 crore and Term Loan of Rs.31.50 crore, at a debt-equity ratio of 0.7:1. The project was commissioned in November, 2018. However, currently, the company has not availed the term loan yet, and the entire cost has been financed by way of equity and unsecured loans and by way of creditor of supplier of goods, which shall be substituted once the bank loans are disbursed.

Key Weaknesses

Nascent stage of operation

The company commenced its operation from November, 2018 and hence, it is at a very nascent stage of operation.

Raw material availability & susceptibility to price escalation

The major raw material required is Manganese ore. Currently ESPL is acquiring it locally from domestic manufacturers. However, for good quality manganese ore, ESPL will eventually have to go for imports, which will result in increasing the cost. As the company proposes to commence billet manufacturing from January 2019, they will source iron ore, the main raw material from the market, it exposes them to price volatility of the same.

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on company's performance in view of ESPL's direct linkage to the fortunes of Steel industry. However, the outlook for the steel industry in the short term appears to be good as the steel prices have hardened in the recent past, coupled with robust demand in the domestic market.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Structure Debt Transaction (Non-securitisation Transaction)

The rating to the company is based on the support of an unconditional and irrevocable shortfall undertaking of SIPL to meet the debt obligation of ESPL.

Liquidity

The company has started its commercial operation from November, 2018 and hence, its operation is at a nascent stage. In view of this, ESPL's debt servicing derives comfort from promoters' experience in the similar line of experience. As of now, ESPL's bank facilities (working capital and term loan) are backed by an unconditional and irrevocable shortfall undertaking of SIPL, a group company of ESPL. Overall, SIPL's debt protection parameters appear adequate after considering the future debt servicing obligations of ESPL.

About the Company

Eloquent Steels Pvt. Ltd. (ESPL), was incorporated in 2012 and the company was engaged in trading of goods. However, in November 2017, the company was taken over by Mr Deepak Agarwal. ESPL acquired existing plants in Q3FY18, through auction from Official Liquidator of Honourable High Court, Kolkata, and also through bidding in auction notice from bank. Both the plants consisted of ferro-alloy manufacturing facilities as well as steel melting shop. The production has started in November, 2018. The plan capacity is 43645 MTPA of Silico Manganese, as well as 400 Tonnes per day of Billets is proposed. Initially when the project was initiated, the promoters only proposed manufacturing of ferro-alloys. However, they decided to utilise the steel melting unit to manufacture billets. ESPL proposes to start the production of Billets from January, 2019.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2017	31-03-2018#
	Audited	Audited
Total Operating Income	0.05	1.06
EBITDA	0.00	0.01
PAT	0.00	0.01
Total Debt	0.07	39.70
Tangible Net worth	-0.01	0.00
EBITDA Margin (%)	1.03	0.63
PAT Margin (%)	0.62	0.99
Overall Gearing Ratio (x)	NM	NM

*Classification as per Infomerics' standards.

#Operations have started in November, 2018. The result reflects the past trading activities carried out in the company.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. 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 – Cash Credit (including proposed limit of Rs.18.50 crore)	Long Term	33.50	IVR BBB-(SO)/Stable (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*	-	-	-
2.	Long Term Fund Based Limits – Term Loan (including proposed limit of Rs.11.50 crore)	Long Term	31.50	IVR BBB-(SO)/Stable (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*	-	-	-



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3.	Short Term Non Fund Based Limits –Letter of Credit	Short Term	20.00	IVR A3(SO) (IVR Single A Three [Structured Obligation])*	-	-	-
4.	Short Term Non Fund Based Limits –Bank Guarantee (proposed limits)	Short Term	15.00	IVR A3(SO) (IVR Single A Three [Structured Obligation])*	-	-	-

*Based on an unconditional and irrevocable shortfall undertaking of Shakambhari Ispat & Power Ltd (SIPL).

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
Cash Credit (including proposed limit of Rs.18.50 crore)	-	-	-	33.50	IVR BBB-(SO)/Stable (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*
Term Loan (including proposed limit of Rs.11.50 crore)	Oct-2018	10.50%	Mar-2025	31.50	IVR BBB-(SO)/Stable (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*
Letter of Credit	-	-	-	20.00	IVR A3(SO) (IVR Single A Three [Structured Obligation])*
Bank Guarantee (proposed limits)	-	-	-	15.00	IVR A3(SO) (IVR Single A Three [Structured Obligation])*

*Based on an unconditional and irrevocable shortfall undertaking of Shakambhari Ispat & Power Ltd (SIPL).