

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Sambhv Sponge Power Pvt Ltd

December 12, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	29.50	IVR BBB-(SO) / Stable (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*	Assigned
Short Term Bank Facilities	9.50	IVR A3 (SO) (IVR Single A Three [Structured Obligation])*	Assigned
Total	39.00		

*Based on an unconditional and irrevocable corporate guarantee of S. Pyarelal Ispat Pvt Ltd

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from its experienced promoters, corporate guarantee of S. Pyarelal Ispat Pvt. Ltd, strategic location of the plant, healthy capacity utilisation and integrated operations of the group. However, the rating is constrained by highly competitive & fragmented nature of industry, cyclicity in the steel industry, lack of adequate backward integration vis-à-vis volatility in prices and customer concentration risk. Scale of operation & profitability, global demand and supply & prices of steel products, working capital management and leverage are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The company's operations are managed by Mr. Suresh Kumar Goyal, Mr. Vikas Kumar Goyal and Mr. Ashish Kumar Goyal, each of whom are having experience of more than 10 years in the steel industry. Mr. Suresh Kumar Goyal and Mr. Vikas Kumar Goyal are associated with other group company, S. Pyarelal Ispat Pvt Ltd (SPIPL) in the capacity of Directors. Mr. Ashish Kumar Goyal is holding Directorship in another group company, Niros

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Ispat Pvt Ltd, which is engaged in the manufacturing of Sponge Iron. They are well supported by a team of experienced personnel.

Strategic location of the plant

SSPPL's manufacturing facility is located in Raipur district of Chhatisgarh, which is in close proximity to various steel plants and various producers/dealers of its main raw materials (iron ore/coal). Further the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw material and end market for its sponge iron results in containment of transportation costs.

Healthy capacity utilisation

Within eight months of commencing operations, Sambhv sponge Power P Ltd(SSPPL) is running at almost full capacity. This has been possible since a sizeable portion of the sponge iron manufactured is sold to its group company, S. Pyarelal Ispat Pvt Ltd (SPIPL), which manufactures billets and MS Structures.

Integrated operations of the group

SPIPL has four induction furnaces (IF's), a continuous caster machine (CCM) for manufacturing billets and a rolling mill for manufacturing MS Structures. The raw materials for billets are sponge iron which is supplied by group companies, SSPPL and Niros Ispat Pvt Ltd and steel scrap. The raw material for the rolling mill is MS billets, which is captively consumed from the Induction Furnaces. Thus the operations of the group are fully integrated.

Key Rating Weaknesses

Highly competitive & fragmented nature of industry

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

Cyclicality in the steel industry

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in

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the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Lack of adequate backward integration vis-à-vis volatility in prices

SSPPL does not have a captive iron ore mine. Iron ore pellets are procured from nearby pellet plants at competitive rates. However, the company has also started procuring iron ore lump from NMDC lately, the mines of which are also located very close to the company's factory premises. For coal, SSPPL has a linkage with South Eastern Coalfields Limited for 60,000 MTPA. The price of iron ore/pellet and coal are volatile in nature and the same exposes the company to input price fluctuation risk for its entire requirement.

Customer concentration Risk

The revenue from top five customers comprised about 70% of the total operating income in H1FY19. Although SSPPL's revenue is exposed to customer concentration risk, however on the backdrop of repeat orders from large customers (including group company SPIPL), the concentration risk stands reduced to that extent.

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 supported by an unconditional and irrevocable guarantee of SPIPL (rated IVR BBB-).

Liquidity

The company's average utilisation of working capital limits stand at 27% for the period May 18 – September 18 which provides fair degree of liquidity support. Further, the rating is supported by an unconditional and irrevocable guarantee of SPIPL. Further, SPIPL has been earning a modest level of cash accruals over the years and maintaining a satisfactory debt servicing track record.

About the Company

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Sambhv Sponge Power Private Limited (SSPPL), incorporated in April 2017, is engaged in the manufacturing of Sponge Iron and belongs to the Brijdham group based out of Raipur. SSPPL is a group company of S. Pyarelal Ispat Pvt Ltd (SPIPL), incorporated in 2009. The facility of SSPPL is strategically located at Tehsil Tilda, in Raipur district, which is in close proximity of various steel plants and dealers of its main raw materials. The unit started its commercial operations in FY18 (March) with a capacity of 66,000 MTPA. It was a brown field investment, funded by debt of Rs. 12.50 crore and promoters infusion of Rs. 8.50 crore. The COD for the same was March 2018.

Financials (Standalone):

		(Rs. crore)
For the year ended*		31-03-2018#
		Audited
Total Operating Income		10.30
EBITDA		0.70
PAT		0.32
Total Debt		15.58
Tangible Net worth		19.08
EBITDA Margin (%)		6.85
PAT Margin (%)		3.14
Overall Gearing Ratio (x)		0.82

*Classification as per Infomerics' standards.

In operation only from March 2018.

Status of non-cooperation with previous CRA: Nil

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	Long Term	17.00	IVR BBB-(SO)/ Stable Outlook	-	-	-

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2.	Long Term Fund Based Limits – Term Loan	Long Term	12.50	IVR BBB-(SO)/ Stable Outlook	-	-	-
3.	Short Term Non Fund Based Limits – Inland LC	Short Term	9.50	IVR A3 (SO)			

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–Cash Credit	-	-	-	17.00	IVR BBB-(SO)/ Stable Outlook
Long Term Bank Facilities– Term Loan	-	Bank of Baroda- 14.3% United Bank of India- 13.1%	September 2024	12.50	IVR BBB-(SO)/ Stable Outlook
Short Term Bank Facilities– Inland LC	-			9.50	IVR A3 (SO)