



Press Release

Sanvijay Alloys and Power Limited (SAPL)

June 8th, 2021

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Bank Facility – Cash Credit	45.00	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Assigned
2.	Long Term Fund Based Bank Facility – ECLGS	4.59	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Assigned
	Total	49.59		

Ratings

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Sanvijay Alloys and Power Limited (SAPL) derives comfort from its experienced promoters with their established track record in the industry, forward integrated manufacturing facility along with the benefit received in the form of subsidy, moderate operating income albeit improving, comfortable financial risk profile. However, the rating strengths are partially offset by volatility in raw material prices, intense competition and cyclical nature observed in the steel industry, working capital intensive nature of operation.

Key Rating Sensitivities

Upward Factors

- Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics on a consolidated basis.

Downward Factors

- Any decline in revenue and/or profitability impacting the debt protection metrics or liquidity on a consolidated basis.

Key Rating Drivers with detailed description



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Key Rating Strengths

Experienced Promoters with an established track record in the Industry:

Promoters of the Sanvijay Group possess vast experience in the manufacturing and trading of steel products. They have an established track record of setting up and implementing the steel projects within scheduled timeline. Mr. Sanjay Agarwal having common directorship in the Sanvijay Group, carrying over more than two decades of experience in steel trading and manufacturing. Over the last decade, the group has expanded its depth presence in state of Maharashtra which has given overall competitive advantage to the group. The group is well supported by the team of qualified and dedicated professionals.

Forward integrated manufacturing facility along with benefit of receiving the subsidy

SAPL operation is forward integrated with 8 MW captive waste heat recovery power plant and additionally SAPL has also installed 25 MW—plant (which will become operational by H1FY22), therefore as on date SAPL has in all 33 MW power plant. Access to captive power also plays a vital role in terms of operational integration with its energy intensive nature of manufacturing that leads to cost optimization. Partially integrated nature of operation provides a competitive edge to the group over other regional re-rollers. Sanvijay Infrastructure Private Limited (SIPL) and SAPL both the companies have PSI subsidy available with them, under mega projects wherein 100% refund of SGST paid can be claimed. There will be additional inflow of ~INR20 Crore (INR7 Crore: SIPL and INR13 Crore: SAPL) to the group on an annual basis and which is expected to continue till FY2026 for SAPL and till FY2029 for SIPL.

Moderate operating income in FY20 albeit improving.

Total operating income of the group increased in FY21 at INR1084.49 Crore after witnessing a y-o-y decline from INR1288 Crore in FY19 to INR1032.44 Crore in FY20 due to slowdown in the steel industry leading to decline in volume sales as well as sales realisation of all the products manufactured by the company, i.e., sponge iron, structural steel products, bars, etc. Also, the sudden outbreak of COVID 19 pandemic and the subsequent lockdown added to the decline in operating income in FY20. As a result, absolute EBITDA declined from INR80.40 Crore in FY19 to INR74.97 Crore in FY20 however the same improved to INR83.52 Crore in FY21, EBITDA margin declined to 7.26% in FY20 from 7.70% in FY19.



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PAT margin also witnessed a decline from 1.25% in FY20 to 0.94% in FY21. Overall operating income of the group started picking up from Q3FY21 onwards. The decline in profitability of FY20 as compared to FY19 was mainly due to election season viz. 2 major elections i.e. Parliamentary Elections in April - May 2019 & Maharashtra Legislative Elections in Oct – Nov 2019. Due to election code of conduct, the product lifting on EPC project was at slower pace and thus lead to softening of rates and which in all reduced the profit margin of the company for couple of months. Furthermore, the performance was also impacted by headwinds arising out of Covid-19 pandemic.

FY21 numbers are estimates.

Comfortable financial risk profile

The financial risk profile of the group is marked by comfortable capital structure backed by its comfortable net worth. The combined net worth of the Sanvijay Group stood at INR572.57 Crore in FY21 (INR561.42 Crore as on March 31, 2020). Overall gearing remained moderately comfortable at 0.94 as on March 31, 2021 (0.97x as on March 31, 2020). Interest coverage ratio remained comfortable at 2.21x in FY21 as compared to 2.12x in FY20 which got improved as compared to FY19 at 2.07x backed by increase in EBITDA and decline in finance cost. However, total indebtedness of the company marked by TOL/TNW remained moderately comfortable at 1.08x as on March 31, 2021 (1.10x as on March 31, 2020).

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices

The degree of forward integration defines the ability of the company to improvise its operational efficiency and withstand cyclical downturns generally witnessed in the steel industry. However, it does not have any backward integration for its basic raw materials (iron ore & coal and billets) and has to purchase the same from open market. SAPL procures coal from WCL (Western Coal Fields Limited) and iron-ore from NMDC (National Mineral Development Corporation) as the company has long term raw material procurement contract with WCL and NMDC, and the company procures some part of its billet requirements from the open market. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in



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raw material prices. Further steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition along with cyclicity in the steel industry

The steel manufacturing businesses is characterized by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players. The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Working capital intensive nature of operation

The operations of the group are working capital intensive, where average raw material holding period stands at 140 days in FY21(Estimates) as compared to 144 days in FY20, primarily on account of inventory to be maintained as per the order book involving medium- long transit period.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has taken the consolidated approach by combining financial profiles of Sanvijay Rolling and Engineering Limited (SREL), Sanvijay Infrastructure Private Limited (SIPL), and Sanvijay Alloys and Power Limited (SAPL) collectively referred as Sanvijay group. The consolidation is on account of common management and significant operational & financial linkages.

List of group companies considered for consolidation:

Name of the Company	Extent of Consolidation
Sanvijay Infrastructure Private Limited [SIPL]	Full*
Sanvijay Alloys and Power Limited [SAPL]	Full*
Sanvijay Rolling and Engineering Limited [SREL]	Full*

****Intercompany transaction has been adjusted as per Infomerics standard.***

Applicable Criteria

- Rating Methodology for Manufacturing Companies



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- Financial Ratios & Interpretation (Non-financial Sector)
- Consolidation of companies

Liquidity – Adequate

The company has been earning comfortable level of Gross Cash Accrual (GCA) for the last three years ended FY21 and the same is expected to improve further with an increase in scale of operation & rationalisation of cost. The company maintains adequate cash and bank balance amounting to INR8.89 Crore as on March 31, 2020 (including FD amount) to meet its liquidity requirement. Current ratio also remains comfortable at 1.73x in FY20 and 1.78x in FY21(est).

About the Company-

Sanvijay Alloys and Power Limited (SAPL) is part of Sanvijay group where the flagship company is Sanvijay Rolling Mills & Engineering Limited. Sanvijay Alloys & Power Ltd. (formerly Grace Industries Limited) is an Associate company of M/s Sanvijay Rolling and Engineering Limited (SREL). SAPL is in the business of manufacturing of Sponge Iron and Generation of power. The plant of the company is located at Tadali, Chandrapur. SAPL has a setup of 4 x 100 TPD DRI Kilns for production of high grade Sponge Iron 33 MW Captive Power Plant

Financials: Consolidated

For the year ended/ As On	31-03-2019	31-03-2020	31-03-2021
	(Audited)	(Audited)	(Estimates)
Total Operating Income	1288.72	1032.44	1084.49
EBITDA	80.40	74.97	83.52
PAT	24.52	12.91	10.24
Total Debt	526.93	547.19	537.43
Tangible Net-worth	547.37	561.42	572.57
Ratios			
EBITDA Margin (%)	6.24	7.26	7.70
PAT Margin (%)	1.86	1.25	0.94
Overall Gearing Ratio (x)	0.96	0.97	0.94

* Classification as per Infomerics' standards.



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Financials: Standalone

For the year ended/ As On	(Rs. crore)		
	31-03-2019 (Audited)	31-03-2020 (Audited)	31-03-2021 (Estimates)
Total Operating Income	261.31	224.18	162.81
EBITDA	16.49	21.40	18.80
PAT	9.05	3.13	2.21
Total Debt	253.92	290.62	285.93
Tangible Net-worth	91.24	95.91	99.16
Ratios			
EBITDA Margin (%)	6.31	9.55	11.55
PAT Margin (%)	3.23	1.39	1.36
Overall Gearing Ratio (x)	2.78	3.03	2.88

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:NA

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Bank Facility – Cash Credit	Long Term	45.00	IVR BBB+/Stable	--	--	--
2.	Long Term Fund Based Bank Facility – ECLGS	Short Term	4.59	IVR BBB+/Stable	--	--	--

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:



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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 I: 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 Bank Facility – Cash Credit	-	-	-	45.00	IVR BBB+/Stable
Long Term Fund Based Bank Facility – ECLGS	-	-	Up to, 2023	4.59	IVR BBB+/Stable

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lenders-SAPL-8-6-21.pdf>