Press Release

Sanvijay Alloys and Power Limited (SAPL)

January 01, 2024

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Fund Based Facility– Cash Credit	90.00 (Increased from Rs.50.00 crore)	IVR BBB+/ Stable (IVR Triple B plus with Stable Outlook)	Revised	Simple
Long Term Fund Based Facility – Term Loan	165.77 (Decreased from Rs.185.00 crore)	IVR BBB+/ Stable (IVR Triple B plus with Stable Outlook)	Revised	Simple
Short Term Non Fund Based Facility – Bank Guarantee	25.00 (Increased from Rs.5.00 crore)	IVR A2 (IVR A Two Plus)	Revised	Simple
Proposed Long Term Fund Based Facility – Term Loan	500.23	IVR BBB+/ Stable (IVR Triple B plus with Stable Outlook)	Assigned	Simple
Total	**781.00 (Rupees seven hundred and eighty-one crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Sanvijay Alloys and Power Limited (SAPL) factors in the project execution risk for the proposed significant capex which is expected to be completed in FY26.

The ratings continue to derive strength from the experience of its promoters, forward and backward integration within the parent and subsidiary company. Synergy benefits from the acquisition by Omsairam Steels and Alloys Private Limited. Also, improvement in profitability levels.

Further, the rating is constrained by susceptibility of profits to price volatility and Intense competition along with cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained growth in scale of operations with improvement in profitability while maintaining the debt protection metrics & capital structure
- Substantial improvement in the credit risk profile of the parent

Downward Factors

- Any time or cost over run in the proposed capex
- Any decline in revenue and profitability leading to deterioration in debt protection metrics
- Any decline in the credit risk profile of the parent.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management with established track record of operations of the group in steel industry

SAPL has been taken over by Omsairam Steels and Alloys Private Limited (OSAPL), the promoters of the Omsairam 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. Promoters of the group are carrying over more than three 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. OSAPL was incorporated on August 14, 2003 as a Private Limited Company and is a part of Omsairam Group is a Jalna, Maharashtra, established by Bharuka Family is engaged in steel manufacturing and trading. Flagship Company of the Group is M/s Omsairam Steels & Alloys Pvt. Ltd. OSAPL sells the TMT bars under the brand name "UMA 500 TMX". The TMT bars are manufactured in its rolling division by using its own MS Billets manufactured in its melting division and with hot rolling technology.

Location advantage with plant proximity to mines

SAPL's manufacturing unit is located in Chandrapur, Maharashtra, which has proximity to the iron ore and coal mines. Further, Lloyd mines are in operational since 2021 which was stuck up for the last 10 years. This is 50-60 kms away from the SAPL, which benefitted in reducing the transportation cost.

Moderate scale of operations and improving profitability margins

The revenues in SAPL marginally declined due to the company's manufacturing capacity remained non-operational for few days during the transition phase and cleanup process of the unit. Trading sales happened during that period. EBITDA levels improved due to reduction in iron ore transportation cost, improvement in capacity utilization and increase in sale of power. The operating income of SAPL stood at Rs.389.24 Cr in FY23 as against Rs.408.01 Cr in FY22 and Rs.176.12 Cr in FY21. EBITDA margins stood at 22.09% in FY23 as against 11.55% in FY22. For H1 FY24, SAPL has generated Rs.190.54 Cr. In FY23, 84% of the SAPL's total revenue caters sales to OSAPL as against 43% in FY22.

Eligibility for mega project benefits scheme

The Company is also eligible for Mega Project benefits under the Package Scheme of Incentives (PSI), 2013 of state of Maharashtra. The eligible investment sanctioned to SAPL is Rs.550 Crore out of which the Company has already received eligibility certificate for Rs.403 Crore. This includes Rs.133 Cr for previously done sponge iron capex and Rs.270 Cr for recently done Ferro alloys plant and power unit.

Key Rating Weaknesses

Significant debt funded capex

SAPL is in the business of manufacturing Sponge Iron which is one of the Raw Materials used for manufacturing Billets. OSAPL is in this business of manufacturing of Billets and TMT bars. Thus, the final product of SAPL is the raw material for OSAPL and it is purely backward integration of unit. Thus, OSAPL would procure Sponge Iron from SAPL. OSAPL has benefit of assured quality of product and saving in logistic cost. Moreover, the recently completed capex of ferro alloys plant in September 2023. This one of the raw materials used in manufacturing of billets. OSAPL wants to have control of the raw material. Further, there is no

ferro alloys unit in the vicinity and ferro alloys being a high margin commodity would also help in improving the margins. Further, w.r.to sponge iron, presently, the Company is manufacturing Sponge Iron from Iron Ore. Alternatively, the Company can also substitute Iron Ore with Pellets (manufactured from Iron ore fines) which are cost effective and can match the same quality as of Iron ore. Hence, pellet unit would be a backward integration for the Sponge Iron Unit of the Company. Also with the setup of 50MW power unit in SAPL, the excess power will be transferred to OSAPL which would bring down their power cost from Rs.7.50 per unit to Rs.5.50 per unit, so in total the parent company could save Rs.50-60 Cr per annum.
SAPL presently has a capacity of 144,000 MTPA and this is proposed to enhance to 612,000 MTPA with a projected cost of Rs.244.80 Cr. Further, the company has present power capacity of 33 MW and is proposed to increase by 83 MW with a projected cost of Rs.200.82 Cr. As a part of backward integration of SAPL, the company also proposed to set up 1.2 mn MTPA capacity of pellet plant with a projected cost of Rs.285.17 Cr. Of the total proposed capex of Rs.770.50 Cr, promoters' contribution at Rs.270.50 Cr and remaining Rs.500.00 Cr through external debt. The proposed capex is expected to be completed by FY26. The scheduled progress of the project will be a key monitorable.

Moderate financial risk profile

SAPL's capital structure remained moderate with networth at Rs.234.40 Cr as on March 2023 against Rs.115.06 Cr as on March 2022. The overall gearing improved to 1.05 times as on March 2023 as against 2.38 times as on March 2022. The improvement is due to increase in PAT levels coupled with Rs.58.75 Cr of unsecured loans being treated as quasi equity in FY2023. Till FY2022, unsecured loans were not treated as quasi equity as there was change in the management, and unsecured loan was repaid. Interest coverage ratio and debt service coverage ratio stood at 7.40 times and 6.10 times respectively as on March 2023 as against 7.23 times and 7.44 times as on March 2022 respectively. With the onset of proposed debt funded capex, there could be a marginal deterioration of capital structure and debt protection metrics.

Susceptibility of profits to price volatility

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. 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 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 cyclicality 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.

Analytical Approach: Standalone

The approach has been changed to standalone from consolidated.

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Rating criteria on Parent/Group Support

For arriving at the rating, INFOMERICS has considered the support from parent company – Omsairam Steels and Alloys Private Limited (OSAPL), factoring the strategic importance of SAPL to OSAPL and moral obligations of OSAPL by way of 80% shareholding in the SAPL. Additionally, OSAPL has given the corporate guarantee to the bank borrowings of SAPL.

Liquidity: Adequate

The company's liquidity is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its debt repayment obligations. The working capital limits of the company remained utilised at ~91% for the last 12 months ended November 2023. Current ratio of the company stood at 1.43 times as on March 2023 as against 1.84 times as on March

2022. Cash and cash equivalents of the company stood at Rs.3.83 Cr as on March 2023 and Rs.1.51 Cr as on March 2022.

About the company

SAPL was incorporated on August 21, 2003 and is in the business of manufacturing sponge iron and generating power. Recently the company also engaged in manufacturing of ferro alloys. The company was previously known as Grace Industries Limited; the name was changed to SAPL dated 23 March 2020. The management of SAPL has been changed to OSAPL by virtue of transfer of shares wherein OSAPL holds 80% Shareholding in SAPL.

Financials (Standalone): SAPL

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	408.01	389.24
EBITDA	47.13	85.99
PAT	25.10	58.43
Total Debt	273.47	245.18
Tangible Net worth	115.06	234.40
Ratios		
EBITDA Margin (%)	11.55	22.09
PAT Margin (%)	6.12	14.97
Overall Gearing Ratio (x)	2.38	1.05

*Classification as per Infomerics' standards

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 Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (October 03, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term Fund Based Facility– Cash Credit	Long Term	90.00	IVR BBB+/ Stable (IVR Triple B plus with Stable Outlook)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	-	-
2.	Long Term Fund Based Facility – Term Loan	Long Term	165.77 (Decreased from Rs.185.00 crore)	IVR BBB+/ Stable (IVR Triple B plus with Stable Outlook)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	-	-
3.	Short Term Non Fund Based Facility – Bank Guarantee	Short Term	25.00 (Increased from Rs.5.00 crore)	IVR A2 (IVR A Two Plus)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	-	-
4.	Proposed Long Term Fund Based Facility – Term Loan	Long Term	500.23	IVR BBB+/ Stable (IVR Triple B plus with Stable Outlook)			

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities -

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2029	165.77	IVR BBB+/ Stable
Cash Credit	-	-	-	90.00	IVR BBB+/ Stable
Bank Guarantee	-	-	-	25.00	IVR A2
Proposed Term Loan	-	-	-	500.23	IVR BBB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: https://www.infomerics.com/admin/prfiles/len-Sanvijay-alloy-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.