Press Release

Sharu Steels Private Limited

July 02, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Instruments/Facilities	25.79	IVR BB+/Stable [IVR Double B Plus with Stable outlook]	IVR BB/Negative (INC) [IVR Double B with Negative Outlook; Issuer not cooperating]	Assigned/Upgraded along with change in outlook and removed from Issuer not cooperating category	Simple
Short Term Instruments/Facilities	22.00	IVR A4+ (IVR A Four Plus)	IVR A4 (INC) (IVR A Four Issuer not cooperating)	Assigned/Upgraded and removed from Issuer not cooperating category	Simple
Total	**47.79**	**[Forty-Seven crore and seventy-nine lakhs only]**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has upgraded its rating assigned to the bank facilities for long term facilities to IVR BB+ with Stable outlook and IVR A4+ to the short-term facilities of Sharu Steels Private Limited (SSPL). Further the ratings have been removed from issuer not cooperating category on account of client cooperation. Infomerics Ratings has also assigned the rating of IVR BB+ with stable outlook for the long-term enhanced facilities and IVR A4+ for the short-term facilities of Sharu Steels Private Limited.

The rating continues to draw comfort from extensive experience of the promoters in the steel industry along with moderate operating performance. However, the ratings remains constrained by average business risk and financial risk profile, susceptibility of EBITDA margin to volatility in raw material prices, geographical concentration risk, and intense competition in the industry.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. Infomerics Ratings believes that SSPL will continue to benefit on account of stable outlook for steel industry.

Infomerics Ratings has principally relied on the standalone provisional financial results of SSPL up to 31 March 2024 (refers to period April 1st, 2023, to March 31st, 2024) and projected financials for FY2025 (refers to period April 1st, 2024, to March 31st, 2025) - FY2027 (refers to period April 1st, 2026, to March 31st, 2027), and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Healthy growth in revenue and sustained EBITDA margin over 5%, along with sustenance of working capital cycle.
- Improvement in financial risk profile metrics.

Downward Factors

- Steep decline in revenue and operating margin below 3% on a sustained basis.
- Stretch in the working capital cycle, or any large debt-funded capex, weakening the financial risk profile, especially liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of the promoters coupled with long existence in the market:**

The promoters have an experience of nearly three decades in the steel industry, which has enabled them to develop a sound understanding of the local market dynamics. Over their long tenure, they have developed strong relations with customers and suppliers.

- **Moderate scale of operations and profitability:**

As per the provisional financial, the TOI of the company has declined by 9.72% and stood at Rs. 227.16 crore in FY24(provisional) compared to Rs. 251.29 crore in FY23 on account of decline in sales volume during the years, although the average sales realization has improved. The EBITDA stood at Rs. 8.86 crore in FY24(P) increases from Rs. 8.66 crore in FY23. The PAT of the company stood at 2.73 crore in FY24 compared to Rs.2.74 crore in FY23. The GCA of the company stood at Rs. 3.86 crore in FY24 compared to Rs. 3.75 crore in FY23 on account of an increase in profitability. Although decline in scale of operations, the Profitability of the company improved marked by EBITDA margin has improved by 46 bps and stood at 3.90% in FY24(P) compared to 3.44 % in FY23 on account of the decline in raw material consumption cost. Subsequently, the PAT margin of the company improved by 13 bps and stood at 1.20% in FY24 (P) compared to 1.09% in FY23 on account of the increase in operational profits.

Key Rating Weaknesses

- **Average financial risk profile**

The TNW of the company stood moderate at Rs. 21.24 crore as on March 31, 2024, compared to Rs. 18.50 crore as on March 31, 2023. Unsecured loan to the tune of Rs. 6.54 crore as on March 31, 2024, has been considered as quasi equity as the same are subordinated to bank borrowing. The total debt of the company stood at Rs. 44.01 crore as on March 31, 2024, compared to Rs. 35.55 crore as on March 31, 2023. The capital structure of the company moderated marked by the Overall Gearing Ratio (including quasi equity) at 2.08x as on 31 March 2024(Provisional) deteriorated from 1.96x as on March 31, 2023, on account of increase in term liability along with higher utilization of working capital bank borrowings. The total indebtedness of the company as reflected by TOL/ATNW stood at 2.80x as on March 31, 2024, improved from 2.95x as on March 31, 2023, on account of decline in creditors. The debt protection metrics stood comfortable marked by Interest Coverage Ratio of 1.87 times in FY24 deteriorated from 2.02 times in FY23 on account of increase in interest and finance cost. Total Debt to GCA of the company is increased from 9.49 years in FY23 to 11.39 years in FY24 on account of increase in term debt is more than increased in GCA.

- **Susceptibility of EBITDA margin to volatility in raw material prices:**

Cost of production and profit margin are heavily dependent on raw material prices (steel scrap). Furthermore, profitability is linked to the cyclicality in the steel industry, which has strong correlation with overall growth in gross domestic product. Operating performance will remain susceptible to volatility in raw material prices, and offtake by key user sectors. EBITDA margin has been at 3.44% to 3.90% over the past two fiscals ended 2024.

- **Geographical concentration risk:**

SSPL has a customer base located mainly in Ludhiana and Chandigarh which exposes the company to geographical concentration risk. Although, the company has plans to geographically diversify and tie-up with customers spread in whole northern region of India

- **Intense competition in the industry:**

The industry is highly competitive with a large number of organised and unorganised players which limits the bargaining power of the company and places pressure on profitability.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria on assigning rating outlook

Policy on Default Recognition and Post-Default Curing Period

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

SSPL's liquidity is adequate marked by 90.57% average utilisation of fund-based limits during the past 12 months ended May 2024. SSPL has generated cash accrual of Rs. 3.86 Crore in FY24 provisional against CPLTD of Rs. 1.29 crore and expects sufficient cushion in cash accruals vis-à-vis its debt repayment obligations of Rs. 1.30 Crore in FY25 only. The Current Ratio of the company stood at 1.34x as on March 31, 2024(provisional). The unencumbered cash and bank balance stood at Rs. 5.96 crore as on May 31, 2024, respectively.

About the Company

Sharu Steels Private Limited (SSPL) is Ludhiana based private limited company incorporated in 1987 and started the commercial production in same year under the name of Amita Spinners Private Limited. Later, name of the company was changed to Sharu Steels Private Limited. The company is engaged in steel products including manufacturing of Billets & Ingots, Steel Rounds, Steel Flats, Wire Rods, Cast Roll, Hot Die Steel and more used in several industrial applications. The manufacturing plant of the company is located in Ludhiana with a installed capacity of 30400 MT.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	251.63	227.16
EBITDA	8.66	8.86
PAT	2.74	2.73
Total Debt	35.55	44.01
Tangible Net Worth	18.50	21.24
EBITDA Margin (%)	3.44	3.90
PAT Margin (%)	1.09	1.20

Overall Gearing Ratio (including quasi equity) (x)	1.96	2.08
Interest Coverage (x)	2.02	1.87

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Vide press release dated March 04, 2024, Brickwork Ratings Limited have kept the ratings under non-cooperation category on account of non-submission of relevant information and continue remain under the same.

Vide press release dated May 25, 2023, ICRA Limited have kept the ratings under non-cooperation category on account of non-submission of relevant information and continue remain under the same

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	**Name of Security/Facilities**	**Current Ratings (Year 2024-2025)**			**Rating History for the past 3 years**		
		Type (Long Term/Short Term)	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2023-2024**	**Date(s) & Rating(s) assigned in 2022-2023**	**Date(s) & Rating(s) assigned in in 2021-2022**
					Date (Aug 07, 2023)	**Date** (Jun 10, 2022)	**Date** (May 25, 2021)
1.	Fund Based Bank Facilities	Long Term	25.79	IVR BB+/Stable	IVR BB (INC)/ Negative	IVR BB+/ Positive	IVR BB+/Stable
2.	Non-Fund Based Bank Facilities	Short Term	22.00	IVR A4+	IVR A4 (INC)	IVR A4+	IVR A4+

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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 and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans	-	-	-	November 2028	2.79	IVR BB+/Stable
Cash Credit	-	-	-	-	23.00	IVR BB+/Stable
ILC/FLC	-	-	-	-	22.00	IVR A4+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-sharusteels-july24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable.

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable.

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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.