Shriram Navinkumar & Sons Ispat Private Limited

August 13, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	10.00 (includes proposed facility of Rs. 10.00crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	-	Assigned	Simple
Total	**10.00 (INR ten crore 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

The long-term rating assigned to bank facilities of Shriram Navinkumar & Sons Ispat Private Limited (SNSIPL) considers strong promoter group, improvement in scale of operations with increase in topline and profit, moderate capital structure and adequate debt protection metrics and a comfortable working capital cycle. The rating is, however, constrained by susceptibility of profitability to volatility in raw material prices and exposure to cyclicality associated with the steel industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in topline and profitability leading to rise in gross cash accruals on a sustained basis
- Improvement in the capital structure on a sustained basis

Downward Factors

- Dip in operating income and/or moderation in profitability impacting the cash accruals and deterioration in debt protection metrics
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Strong promoter group**

Shriram Navinkumar & Sons Ispat Private Limited is jointly promoted by two brothers who are current directors of company - Mr. Arvind Goenka and Mr. Abhishek Goenka. The promoters have over 12-15 years of experience in steel industry which has helped them to forge strong relations with suppliers and customers.

- **Improvement in scale of operations with increase in topline and profit**

The company has been continuously increasing its installed capacity by addition of induction furnace unit with continuous casting machine (CCM) of 30000 MTPA each, from the FY2019 (refers to period from April 1, 2018 to March 31, 2019) till FY2024 (refers to period from April 1, 2023 to March 31, 2024). The company also made some addition of rolling mill with the capacity of 30000 MTPA in FY24. Presently, the capacity of rolling mill is 120000 MTPA. This capacity addition has led to a consistent increase in topline and profit of the company with total operating income registering a CAGR of 36.5% from FY21 (refers to period from April 1, 2020 to March 31, 2021) to FY24 (prov). TOI was Rs. 208.90 crore in FY21 which increased to 527.28 crore in FY24 (prov). Consequently, EBITDA and PAT also increased by 25.14% and 58.85%, respectively, to Rs. 17.29 crore and Rs. 4.69 crore in FY24 (prov). Infomerics believes that the topline and profit is likely to increase going forward given that the company has successfully completed capacity expansion in FY24, the accretion of which will be seen going forward.

- **Moderate capital structure and adequate debt protection metrics**

The company has a conservative capital structure over the years. The adjusted tangible net-worth was Rs. 24.58 crore as on March 31, 2024 (prov), which increased from Rs. 19.89 as on March 31, 2023, due to accruals of profit to the reserves of the company. The net worth includes Rs. 7.55 crore of unsecured loan treated as quasi equity. Total debt increased to Rs. 57.71 crore as on March 31, 2024 (prov) from Rs. 52.60 crore as on March 31, 2023, due to increase in working capital borrowings. The long-term debt equity ratio and overall gearing continued to remain comfortable since last three financial years ending as on March 31, 2024 (prov) at 0.92x and 2.35x respectively, compared with 1.44x and 2.65x respectively as on

March 31, 2023. Total Debt/ EBITDA improved to 3.34 times as on March 31, 2024 (prov) as compared to 3.81 times as on March 31, 2023, due to increase in the profits. The debt protection metrics of the company remains moderate with interest coverage ratio of 3.11 times and debt service coverage of 1.39 times as on March 31, 2024 (prov), compared with interest coverage of 3.39 times and DSCR of 2.29 times in FY23 (refers to period from April 1, 2022 to March 31, 2023). The slight deterioration in interest coverage is because of increase in interest charges.

- **Comfortable working capital cycle**

The company's working capital cycle was low at 26 days in FY24 (prov) which was almost same as in FY23 i.e. 25 days. The operating cycle is stable in past three years due to collection period is less at ~9-10 days.

Key Rating Weaknesses

- **Susceptibility of profitability to volatility in raw material prices**

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. Major raw material required for the company is sponge iron which it procures from traders. Raw material cost accounted over ~80-85% of cost of production in the last three fiscals. Since raw material is the major cost driver, the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macroeconomic factors

- **Exposure to cyclicality associated with the steel industry**

The domestic steel industry is cyclical in nature which is likely to impact the cash flows of the steel players. The steel industry is cyclical in nature and has witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. The company's operations are thus vulnerable to any adverse change in the demand-supply dynamics.

- **Intense competition**

The Indian secondary steel industry comprises many small to medium steel manufacturers along with large and established players and is characterised by high degree of fragmentation. The presence of many players with lower product differentiation limits pricing power of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Criteria on assigning rating outlook
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities
Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near term. SNSIPL has earned a gross cash accrual of Rs. 11.35 crore in FY24 (prov.). Further the company is expected to earn a gross cash accrual in the range of ~Rs.12-14 crore as against its debt repayment obligations in the range of ~Rs. 2-7 crore during FY25-27. However, with ~87% average fund-based capital utilisation of the company during the past 12 months ended June 2024 indicating limited liquidity buffer. Further any absence of debt funded capex provides some comfort to the liquidity position.

About the company

Shriram Navinkumar & Sons Private Limited was incorporated in June 2004. It was acquired by Shri Arvind Goenka and Shri Vivek Sahni from NCLT on 29.03.2017. The company has 4 induction furnace unit with continuous casting machine (CCM) of 30,000 MTPA each and rolling mill with capacity of 120,000 MTPA. The company is engaged in the production of M.S. Billet and M.S. Strip which is used to manufacture M.S Pipes.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	444.50	527.28
EBITDA	13.82	17.29
PAT	2.95	4.69
Total Debt	52.60	57.71
Tangible Net Worth	12.34	17.03
EBITDA Margin (%)	3.11	3.28
PAT Margin (%)	0.66	0.89
Overall Gearing Ratio (x)	2.65	2.35
Interest Coverage (x)	3.39	3.11

** 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 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 2021-2022
1.	Proposed Cash Credit	Long Term	10.00	IVR BBB-/ Stable	-	-	-

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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).

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Annexure 1: Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Cash Credit	-	-	-	-	10.00	IVR BBB-/ Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-shriram-aug24.pdf

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

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	

	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for Combined analysis: NA

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.