Press Release

Santpuria Alloys Private Limited

December 02, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Ratings	Rating Action
Long Term Fund Based Bank Facilities	14.50	IVR BBB / Stable Outlook (IVR Triple B with Stable outlook)	IVR BBB / Stable Outlook (IVR Triple B with Stable outlook)	Reaffirmed
Short Term Non-Fund Based Bank Facilities	8.00	IVR A3+ Plus (IVR A Three Plus)	IVR A3+ Plus (IVR A Three Plus)	Reaffirmed
Total	**22.50**			

Details of Facilities are in Annexure 1

Detailed Rationales

- The reaffirmation of the rating to the bank facilities of Santpuria Alloys Private Limited has continued to derive comfort from its experienced promoter with long track record, synergies with Mongia Steel Limited, improving capacity utilization and Comfortable financial risk profile. The rating strengths are partially offset by small scale of operations and cyclicality in the steel industry.

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter with long track record

Mr. Gunwant Singh Saluja has close to four decades of experience in the steel industry. Mongia Steel Ltd (MSL), which is the flagship company of the group, was promoted in 1995. In 2004, SAPL was set-up to manufacture sponge iron in an effort to achieve backward integration for Mongia Steel Ltd (MSL). The entire production of SAPL is sold to MSL.

Synergies with Mongia Steel Limited

SAPL is mainly involved in the manufacture of sponge iron from iron pellets. SAPL employs a kiln to melt the iron ore / pellets to manufacture sponge iron. Its entire production is consumed by MSL in its manufacturing process. The entire production of SAPL is sold to MSL. A majority of the sponge iron requirement for the MSL plant is fulfilled by the plant of SAPL.

Improving capacity utilisation

The capacity utilisation for the manufacturing facility SAPL has improved over the last few years from 61% in FY18 to 76% in FY20 due to improvement in market demand.

Comfortable financial risk profile

The financial risk profile of SAPL is comfortable marked by its, comfortable gearing with lower presence of long-term debt in the capital structure and healthy debt protection metrics. The net worth stood healthy at Rs. 30.14 crore as on March 31, 2020. Debt equity stood comfortable at 0.07 times as on March 31. The overall gearing ratio improved from 0.49x as on March 31, 2019 to 0.44x as on March 31, 2020. Total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 1.22x as on March 31, 2020. Interest coverage ratio stood healthy at 4.16 times in FY20 improved from 3.11x in FY19. Going forward, Infomerics believes the financial risk profile of SAPL to remain healthy on the back of expected improvement in its cash accruals.

Key Weaknesses

Small scale of operations

The scale of operations of the company continued to remain small with a total operating income of Rs.87.46 crore. However, the company has achieved a y-o-y growth of about ~10.68% in FY20. Small scale of operations reflects the limited financial flexibility of the firm.

Cyclicality in the steel industry

The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. But, the outlook for the steel industry in the short to medium term appears to be good as the steel prices have hardened in the recently, coupled with robust demand in the domestic markets in India.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient gross cash accruals expected to meet the debt obligations. SAPL has working capital intensive nature of business to support just-in-time inventory requirements. Average working capital utilization for the last 12 months stood at around 90.28% reflecting marginal cushion to meet incremental requirements. Further, current ratio of the company stood at 1.49x as on March 31, 2020 imparting comfort for meeting its near-term liabilities.

About the Company

- Santpuria Alloys Private Ltd (SAPL) was incorporated in 2004, with Mr. Gunwant Singh Saluja and Mr. Balvinder Singh (a distant relative) as Directors. Mr. Gunwant Singh Saluja has around 36 years of experience in the iron and steel industry. SAPL was set-up to facilitate backward integration for the billet, rod and wire production in MSL.
- SAPL is mainly involved in the manufacture of sponge iron from iron pellets. SAPL employs a kiln to melt the iron ore / pellets to manufacture sponge iron. Its entire production is consumed by MSL in its manufacturing process.

Financials (Standalone): **(Rs. crore)**

For the year ended*	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	78.98	87.46
EBITDA	5.07	5.54
PAT	1.50	1.93
Total Debt	13.91	13.37
Tangible Net worth	28.15	30.14
EBITDA Margin (%)	6.41	6.33
PAT Margin (%)	1.89	2.21
Overall Gearing Ratio (x)	0.49	0.44

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by CARE Ratings, vide press release dated October 05, 2020 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	11.50	IVR BBB / Stable Outlook	IVR BBB / Stable (November 18, 2019)	IVR BBB/ Stable (May 30, 2018)	-
2.	CCEL	Long Term	1.50	IVR BBB / Stable Outlook	-	-	-
3.	Term Loan	Long Term	1.50	IVR BBB / Stable Outlook	IVR BBB / Stable (November 18, 2019)	IVR BBB/ Stable (May 30, 2018)	-
4.	LC/BG	Short Term	8.00	IVR A3+ Plus	IVR A3+ Plus (November 18, 2019)	IVR A3+ Plus (May 30, 2018)	-

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.

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	-	-	Revolving	11.50	IVR BBB / Stable Outlook
Long Term Bank Facilities- Term loan	-	-	Latest by March, 2026	1.50	IVR BBB / Stable Outlook
Long Term Bank Facilities- CCEL			Latest by May, 2022	1.50	IVR BBB / Stable Outlook
Short Term Bank Facilities- LC/BG	-	-	Revolving	8.00	IVR A3+ Plus (IVR Single A Three Plus)