

Sunflag Iron And Steel Co Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1,305.19	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	500.00	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	1,805.19 (₹ One Thousand Eight Hundred Five Crore and Nineteen Lakhs Only)		
Commercial Paper (Proposed)	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	100.00 (₹ One Hundred Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings on the bank facilities and instruments of Sunflag Iron and Steel Company Limited (SISCL) factors in the significant improvement in its operating performance during FY22 (FY refers to the period April 01 to March 31), marked by healthy profitability margins and increase in sales volumes, resulting into strong cash flows. The rating further factors in the benefit of the rich experience of the promoters exhibiting long track record in steel industry, integrated manufacturing steel plant, located strategically in central part of the country, strong and large marketing network and selling arrangements. In addition, CARE also considers the healthy financial risk profile of the company along with average debt coverage indicators and strong liquidity position demonstrated by moderate utilization of its bank facilities. Furthermore, CARE has also positively considered the order passed by the Honourable Tribunal with respect to the dispute settlement with Lloyds Metal and Energy Limited.

The rating strengths are however, tempered by susceptibility of the company's operating margins to the volatility in raw material and steel prices, higher working capital requirement.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustenance of healthy top line above Rs. 2500 crore and PBILDT margins above 13%
- Sustained annual gross cash accruals from operating activity above Rs. 250 crore
- Sustenance of TD/GCA below 2.0x over the projected period

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration of operational and financial performance leading to decline in operating profitability levels (PBILDT margin below 12%) or interest coverage ratio below 7.00 times on a sustained basis
- Further leveraging the books resulting in overall gearing above unity.
- Debt-funded capex or acquisitions leading to increase in gross debt impacting the overall gearing ratio (above 1.00x) and debt coverage indicators (Net Debt/PBILDT above 2.00x) on a sustained basis.
- Sizeable stretch in working capital cycle.
- Any time and cost overrun on the on-going capital expenditure diluting the profit yields

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record in the iron and steel industry:

The Sunflag group was promoted by the Bhardwaj brothers i.e. Late P. B. Bhardwaj and Mr. Ravi Bushan Bhardwaj (Chairman). The promoters have rich experience of over five decades in the iron and steel industry. Mr. Pranav Bhardwaj, Managing Director (MD), is second generation entrepreneur, responsible for overall in charge of running the business affairs of the company. The promoters are also supported by team of qualified professionals from varied business backgrounds.

Strategic location of plant and integrated facility coupled with product diversification:

SISCL has an integrated manufacturing facility located in the central part of India at Bhandara, Maharashtra, 70 Kms from Nagpur, where in it is strategically placed to cater to the requirements of various organized and unorganized auto companies across domestic markets. The product portfolio of SISCL has a mix of products from various categories like forging, spring steel, free & semi free cutting steel, engine valve steel, stainless steel rebar, super alloys and tool steels. Further, at present nearly 40% of the power requirement is met through captive power plant capacity while balance power requirement is served from electricity purchased from Maharashtra State Electricity Board (MSEB).

Strong Marketing and selling arrangements:

The company has a strong and large marketing network across the country with its presence in all the major cities like Delhi, Ludhiana, Faridabad, Mumbai, Pune, Nagpur, Bangalore and Chennai. The company enjoys preferred vendor status from the major Original Equipment Manufacturers (OEMs) in automotive industry and other auto ancillary companies. Over last three years, there is increased diversification in client base however revenue concentration from top 10 customers has remained between 20-23%.

Improved operating performance resulting in higher total operating income coupled with profit levels in FY22 over FY21:

During the FY22 and FY21, the company has consistently improved income level by 42.1% & 7.5% respectively. In addition, tolling margin of the company has been improving on y-o-y basis marked by Rs.32,489/ton in FY20 to Rs.40,823/ton in FY22. The operating metrics of the company is expected to remain healthy on the back of strong demand outlook.

Key rating weaknesses

Elongated working capital cycle days albeit improved:

SISCL has operating cycle of 84 days in FY22 as against 97 days in FY21 on account of relatively lower collection days and inventory holding period of 32 days and 108 days respectively as against 40 days and 122 days in FY21. The company has a comfortable collection period days however modest operating cycle is due to high inventory holding period mainly, as the company has an integrated steel plant and ready availability of raw material is critical. Receivables to the tune of Rs.276.30 crore outstanding as on March 31, 2022, have been realized largely.

Susceptibility to volatility in raw material prices and forex risk:

Raw material consumption is the single largest cost component for SISCL, constituting about 70-75% of total costs. The key raw materials used by the company are iron ore/iron ore fines; coke and coal/coal fines, ferro alloys etc. Also, the company imports various raw materials such as ferro alloys, refractory materials, Lam coke, Fluorspar etc. Any adverse movement in the raw material price/ any major adverse fluctuation in the foreign currency without corresponding movement in finished goods price might result in moderation in profitability of the company. The risk is though mitigated to an extent as the prices of finished goods move in tandem with increase in raw material prices, though there is a time lag of one to two months.

Financial risk profile:

Net worth of the company and adjusted overall gearing were at around Rs.1750.51 crore and 0.34x, respectively as on March 31, 2022 (as against Rs.1534.37 crore and 0.17x respectively as on March 31, 2021). With the rebound in demand, the company has replenished its working capital & outstanding cash by issuance of term loans and working capital borrowings.

Steel industry characterized by inherent cyclicality, competition from unorganized players:

Steel is highly capital-intensive industry and is cyclical in nature. Growth in this sector depends on the growth of the economy at large and, in particular, the steel end user industries such as automobile, housing, infrastructure and others. The industry also faces headwinds in the form of volatile raw material prices as well. Competition plays a role in the profitability of steel manufacturer's mainly arising out of unorganized players and Chinese imports. Given the rise in steel, prices have an adverse

impact on infrastructure push and a secondary impact on inflation. In May 2022, govt imposed a 15% export duty on a range of finished steel products - making exports less attractive. Also, the import duty on various raw materials (like coking coal, iron-ore, ferro-nickel) was reduced. This will likely improve domestic steel availability & soften the domestic steel prices.

Liquidity: Adequate

The company has adequate liquidity position marked by cash and bank balance of ~Rs.59.27 crore as on Sep 30, 2022 which is adequate for the debt repayment obligation of the company for FY23. Also, the fund based working capital limits of the company have remained moderately utilized at around 60% for the last 12 months ending Sep 2022. The company utilized working capital limits fully and hardly utilizes the CC limits. This reflects that there is sufficient head room available in the bank limits to support any additional fund requirements.

Analytical approach: Consolidated

CARE has analysed SISCL's credit profile by considering the consolidated financial statements of the company owing to financial, business, operational and management linkages between the parent and subsidiaries.

Subsidiary	% of shareholding
Sunflag Power Limited	100
Khappa Coal Company Private Limited	63.27
Joint Ventures	
Madanpur (North) Coal Company Private Limited	Deallocated
Daido DMS India Private Limited	17.56
Ramesh Sunwire Private Limited	49
C T Mining Private Limited	Deallocated

Except, Daido DMS India Private Limited and Ramesh Sunwire Private Limited, all other entities are non-operating as on June 23, 2022.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Steel](#)

About the company

Incorporated in September 1984, Sunflag Iron and Steel Company Limited (SISCL) is the flagship company of the Nagpur (Maharashtra) based Sunflag Group, promoted by the Bharadwaj brothers i.e. Late P B. Bharadwaj and Mr. Ravi Bhushan Bhardwaj. The company started operations in 1989 as a spring steel producer however, at present the company is engaged in manufacturing of mild-steel and alloy steel products of varieties like carbon steel, free & semi free cutting steels, micro-alloyed steel, stainless steel, spring steels, valve steel, bearing steels, quality steels, tool steel etc. The product range of SISCL includes: Rolled products, Billet/Bloom, Ingots, and Bright Bars etc. of varied shape and size range. These products are mainly used for manufacturing Automotive Transmission Gears, Drive Shafts, Steering System, Bearings, Exhaust System and other Engine Components. The company also supplies to Indian Railways, Ordnance Factories, Power Sectors & other General Engineering areas for manufacture of critical application components. SISCL has been collaborated with Daido Steel Co. Ltd (Japan's leading specialty steel producer), since November 2010 which also has equity stake in SISCL to the tune of 10.00% as on June 30, 2022. The association with Daido helps SISCL in improvement in production Process and Product Quality, Development of New Grades, Localization of Steel by the Automobile OEMs. SISCL has its manufacturing facility located at Warthi, Bhandara Road

(Maharashtra) with installed capacity of 4 Lakh MTPA (Rolling mill), 5.25 Lakh MTPA (SMS), 2.40 Lakh MTPA (Mini Blast Furnace) and a captive power plant (CPP) of 32MW.

Brief Financials (₹ crore)	FY2021 (A)	FY2022 (A)	H1FY2023 (UA)
Total operating income	1,902.88	2,703.40	1,783.94
PBILDT	264.58	403.48	233.93
PAT	140.62	217.02	1,015.94*
Overall gearing (times)	0.17	0.34	0.20
Interest coverage (times)	9.23	9.55	7.33

A: Audited, UA: Unaudited, *Includes exceptional item of Rs. 1,193 crores.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)		Not yet placed		Not yet placed	100.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	607.07	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	31-03-2028	360.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	Aug, 2027	213.67	CARE A+; Stable
Non-fund-based - LT-Letter of credit		-	-	-	124.45	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	500.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	213.67	CARE A+; Stable	1)CARE A+; Stable (25-Aug-22)	1)CARE A+; Stable (03-Jan-22)	1)CARE A; Negative (07-Oct-20)	1)CARE A; Negative (23-Mar-20)

						2)CARE A; Positive (06-Jul-21)		2)CARE A; Negative (22-Aug-19) 3)CARE A; Stable (03-Apr-19)
2	Fund-based - LT- Cash Credit	LT	607.07	CARE A+; Stable	1)CARE A+; Stable (25-Aug-22)	1)CARE A+; Stable (03-Jan-22) 2)CARE A; Positive (06-Jul-21)	1)CARE A; Negative (07-Oct-20)	1)CARE A; Negative (23-Mar-20) 2)CARE A; Negative (22-Aug-19) 3)CARE A; Stable (03-Apr-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	500.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (25-Aug-22)	1)CARE A+; Stable / CARE A1+ (03-Jan-22) 2)CARE A; Positive / CARE A1 (06-Jul-21)	1)CARE A; Negative / CARE A1 (07-Oct-20)	1)CARE A; Negative / CARE A1 (23-Mar-20) 2)CARE A; Negative / CARE A1 (22-Aug-19) 3)CARE A; Stable / CARE A1 (03-Apr-19)
4	Fund-based - LT- Term Loan	LT	360.00	CARE A+; Stable	1)CARE A+; Stable (25-Aug-22)	1)CARE A+; Stable (03-Jan-22) 2)CARE A; Positive (06-Jul-21)	-	-
5	Non-fund-based - LT-Letter of credit	LT	124.45	CARE A+; Stable	1)CARE A+; Stable (25-Aug-22)	1)CARE A+; Stable (03-Jan-22) 2)CARE A; Positive (06-Jul-21)	-	-
6	Commercial Paper- Commercial Paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (25-Aug-22)	1)CARE A1+ (03-Jan-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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