Suryadev Alloys and Power Private Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	498.91 (Enhanced from 207.90)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	324.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	822.91 (Rs. Eight Hundred Twenty-Two Crore and Ninety-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Suryadev Alloys and Power Private Limited (SAP) continue to draw strength from experienced promoters in the steel industry, satisfactory operational performance of its power plants notwithstanding the moderation in PLF levels in FY20 (refers to period from April 01 to March 31) and 9mFY21 (refers to period from April 01 to December 31) on account of unfavorable demand scenario, moderately leveraged capital structure and presence of diversified revenue stream with income from power & steel business. The rating also takes note of improved financial performance during 9mFY21.

The ratings are constrained by commodity nature of finished products coupled with raw material price risk & forex risk, working capital intensive nature of operations, moderate capacity utilization of steel plant, inherent cyclicality in the steel industry and regulatory risk associated with power business. The ratings also take note of project implementation risk associated with proposed backward integration project funding for the same is yet to be fully tied-up.

Positive rating sensitivities: Factors that could, individually or collectively, lead to positive rating action/upgrade

- Improvement in PBILDT margin above 15% along with total debt to GCA below 3.00 times on a sustained basis

Negative rating sensitivities: Factors that could, individually or collectively, lead to negative rating action/downgrade

- Any large debt funded capital expenditure leading to deterioration in capital structure with adjusted overall gearing moderating to above 1.00x.
- Deterioration in PBILDT margin to below 8% on sustained basis.
- Significant delay in achievement of COD of project under implementation

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoters in the steel industry

Mr Mukesh Agarwal and Mr Pankaj Agarwal (younger brother of Mr Mukesh Agarwal) have more than two decades of business experience in trading of steel scrap and manufacturing steel products. They ventured into manufacturing activity through acquisition of a small rolling mill in 1999, which was sold in 2005 as the operations were not very profitable going forward on a small-scale basis. Subsequently, in 2006, the promoters started SAP. Promoters have demonstrated funding support to the company through periodical infusion of equity/unsecured loan in the past.

Partly integrated nature of operations

SAP is primarily engaged in production and sale of QST Rebars. It has production capacity of 2.04 lakh TPA of QST Rebars. Major raw material used in the production of QST bars is MS Billets which is manufactured in-house. SAP has MS Billets making capacity of 3.22 lakh TPA which is more than adequate to meet its entire requirement. SAPPL also sells MS Billets directly. Although the company's operations are partially integrated, the level of integration has increased with SAPPL commissioning its captive power plants (2x80 MW) in 2013.

Diversified client base with shorter term PPA

SAP's captive power plants cater to its internal requirements (around 27 MW) and for the sale of balance power it has entered into power purchase agreement for 122MW with third parties in the state of Tamil Nadu under group captive scheme. SAP has entered into Power Purchase Agreement (PPA) for period upto March 2021 with 66 customers at variable price per unit. The price ranges from Rs.5.85/unit to Rs.6.40/unit. It is to be noted that generally PPAs are renewed every year.

[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Satisfactory operational performance of power division; however, moderation in power demand in FY20 and 9mFY21 leading to lower PLF
During FY20, PLF levels witnessed moderation to 72% from 84% in FY19 due to relatively lower demand. Sales realization has gone up to Rs. 5.75/unit in FY20 from Rs. 5.53/unit in FY19 and Rs. 5.07/unit in FY18. The unit sold to group captive consumer during FY20 was dropped by 14% to 786 MU as against 919 MU in FY19. On account of the volume drop, the total income generated (Excluding interdivisional sales) from the power division dropped to Rs.452 crore in FY20 as against Rs.512 crore in FY19 on account of low PLF levels. It is to be noted that PLF levels in 9mFY21 is further declined to 58% partly due to maintenance shutdown. Notwithstanding the same, sales realization during 9mFY21 improved to Rs. 5.93/unit.

Moderately leveraged capital structure
Long term debt to equity ratio has improved significantly to 0.07x as on March 31, 2020 from 0.14x as on March 31, 2019. Improvement can be attributed to drop in term debt to Rs.75 crore as on March 31, 2020 from Rs.145 crore as on March 31, 2019. Overall gearing as on March 31, 2020 improved to 0.43x from overall gearing of 0.50x as on March 31, 2019 due to reduction in working capital borrowings. Overall gearing as on December 31, 2020 has stood stable at 0.38x. Term debt/GCA and total debt/GCA improved to 1.21x and 7.23x during FY20 from 2.46x and 8.87x during FY19.

Key Rating weaknesses

Commodity nature of product coupled with volatile raw material prices resulting in volatile profit margin in steel division
Being a commodity product, prices of QST Rebars and Billets are highly volatile. Also, there is almost limited possibility of earning premium on QST Rebars/TMT bars by way of branding. Major raw material used in the production is steel scrap. SAP does not have any long-term agreement for procurement of Steel Scrap. The company procures most of the scrap from the spot market, thus exposing the company to the volatility associated with the raw material price. Steel scrap which is the basic raw material for producing steel is mainly imported from US, United Kingdom, etc. by SAP. The lead time for placing the order and receiving the material at the factory premise is around 90-100 days. As a result, the company faces the risk of volatility in raw material prices.

Coal price risk and Forex Risk
SAP buys coal from open market and does not have any long term fuel supply agreement exposing to coal price volatility. The company's dependence on imports is high (both coal & steel scrap) and it is exposed to forex risk. As per company's policy, forex exposure which falls due in the next 50-60 days are fully hedged and rest are kept open. Recently, company has entered into coal purchase agreement for 7.5 Lakhs tonnes at a fixed price of USD34/tonne which is expected to improve the margins of power division, going forward.

Moderation in operational performance of steel division during FY20
During FY20, Income from steel division witnessed 5% degrowth to Rs. 457 crore as against Rs. 482 crore in FY19. Moderation in performance of steel division was on account of unfavorable demand scenario. On account of absence of export orders coupled with muted market demand in FY20, Sales volume of billets witnessed 5% degrowth in volume to 45,758 MT in FY20. Furthermore, the sales realization has dropped to Rs.30,718/tonne in FY20 as compared with Rs.35,354/tonne in FY19 in trend with industry. However,sales volume of QST Rebars witnessed 15% growth to 88,714 MT in FY20 from 76,925 MT in FY19. Total income generated from QST Rebars segment reported marginal growth of 1% in FY20 despite drop in sales realization by 12%.

Stable power supply situation in southern region during FY20 with no major improvement; some of the southern states estimated to have power surplus in FY21
As per the load generation balance report (2020-21) the power scenario in the southern region has remained stable during FY20 on a y-o-y basis. The power supply scenario in Tamilnadu during FY21 is expected to remain stable on y-o-y basis, whereas states like Tamilnadu, Karnataka & Andhra Pradesh are likely to turn energy surplus during the same period. Remaining states in the south including Kerala, and Telungana is expected to face energy deficit in the range of 5% to 6%.

Implementation of backward integration project
The company envisaged setting up of Direct Reduced Iron (DRI also called sponge Iron) plant with the installed capacity of 330,000 TPA, Wastage Heat Recovery Boiler (WHRB) with the installed capacity of 25 MW and Rolling mill with the installed capacity of 204,000 TPA. Estimated cost of the above capex is Rs. 400 crore, to be funded out of term debt of Rs. 280 crore and equity/unsecured loan of Rs. 120 crore. As per the proposed implementation schedule, Rolling mill is expected to achieve COD by Q4FY22 and DRI & WHRB by Q4FY23. Of the capex of Rs. 400 crore, SAP had incurred Rs. 45.91 crore (11.47% of financial progress) as on December 31, 2020, entirely funded through promoter contribution by way of unsecured loans. In respect of bank funding, SAP has received sanction of term loan amounting Rs. 70 crore and is in the process of tying up remaining debt.

Prospects
SAP has partly integrated nature of steel operations with captive power plant. Major part of power from this plant is sold to third parties under group captive scheme. On account of diversified nature of income (steel and power), despite cyclicality or volatility in the business, SAP's operating income witnessed modest decline. Due to commodity nature of products, exposure to raw material price risk, operating profit margin remains volatile mainly in the steel division. Going forward, ability of SAP to improve capacity utilisation of steel & power business, improve profitability as reflected in PBILDT margin & ROCE and any regulatory changes in its power business are the key rating sensitivities. On successful completion of proposed sponge iron unit, extent of integration is likely to improve.

Liquidity : Adequate

SAP primarily sells its QST Rebars to dealers/traders in Tamilnadu, Kerala and Pondicherry. SAP extends a credit period of around 45 to 60 days for dealers. Sale of billets is normally on a cash and carry basis. With respect to coal, SAP imports major portion of coal and maintains 2.5 months of coal inventory (One month in terminal and one and half month in the company). SAP also avails credit period of 6 months for import of coal by issuing LC. With respect to scrap, SAP avails credit period of around 120 days from its suppliers. The average utilization of working capital bank limits is around 84% for last 12 months ended December 2020 (PY: 92%). The scheduled repayment for FY21 is Rs. 32 crore against GCA of Rs 65 crore reported during 9mFY21(Prov.). The company has cash and bank balance of Rs. 55.55 crore as on December 31, 2020. It is to be noted that SAP has availed moratorium for its debt obligation as part of Covid-19 relief package announced by RBI.

Analytical approach:
Standalone

Applicable Criteria

Criteria on assigning Outlook and Creditwatch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's methodology for Independent Power Producers
CARE's methodology for steel sector
Liquidity analysis of Non-financial sector entity

About the Company

Suryadev Alloys and Power Private Limited (SAP) is a Chennai-based company incorporated in May 2006 by Mr Mukesh Agarwal and Mr Pankaj Agarwal. SAP is engaged in the manufacture of iron and steel products. SAP has a plant at Gummidipoondi, Chennai, for production of Quenching and Self Tempering (QST) rebars using 'THERMEX' technology, with an installed capacity of 204,000 tonnes per annum (TPA) as on March 31, 2020. The plant also has induction furnaces with annual production capacity of 322,000 TPA as on March 31, 2020. SAP has also ventured into sale of power from FY14 and has two captive power plants of 80 MW each. Power generated from this unit is sold under group captive scheme.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,091	1,115
PBILDT	135	122
PAT	10	9
Overall gearing (times)	0.50	0.43
Interest coverage (times)	1.91	2.24

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2026	371.41	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	324.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	-	127.50	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	371.41	CARE BBB+; Stable	-	1)CARE BBB+; Stable (16-Mar-20)	1)CARE BBB+; Stable (04-Feb-19) 2)CARE BBB; Negative (04-Apr-18)	-
2.	Non-fund-based - ST-Letter of credit	ST	324.00	CARE A3+	-	1)CARE A3+ (16-Mar-20)	1)CARE A3+ (04-Feb-19) 2)CARE A3 (04-Apr-18)	-
3.	Fund-based - LT-Cash Credit	LT	127.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (16-Mar-20)	1)CARE BBB+; Stable (04-Feb-19) 2)CARE BBB; Negative (04-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Non-financial covenants	
i) Pledging of promoters share	1. Promoters shares should not be pledged to any Bank/NBFC/Institution without any prior consent of the lender.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

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

Contact Us

Media Contact
Name – Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name –Mr. Sudhakar P
Contact no.- 044 – 2850 1000
Email ID- p.sudhakar@careratings.com

Relationship Contact
Name: Mr. Pradeep Kumar V
Contact no. : 044 – 2850 1000
Email ID : pradeep.kumar@careratings.com

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