

## Sapcon Steels Private Limited

January 13, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	4.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B: Outlook: Stable; ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Short term Bank Facilities	4.00	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
<b>Total</b>	<b>8.00</b> (Rs. Eight crore only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated October 24, 2019, placed the rating of Sapcon Steels Private Limited (SSP) under the 'issuer non-cooperating' category as SSP had failed to provide information for monitoring of the rating. SSP continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated December 31, 2020, December 22, 2020, and December 21, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

### Detailed description of the key rating drivers

The long term rating has been revised on account of modest scale of operations, low profitability margins and weak capital structure, raw material price variability, highly fragmented nature of industry characterized by intense competition and fortunes linked to the steel industry which is cyclical in nature. The rating, however, draws strengths from experienced promoters, long track record of operations.

#### **Key rating Weaknesses**

##### **Modest scale of operations**

The total operating income (TOI) of SSP stood modest at Rs.245.62 crore in FY19 (refers to the period April 01 to March 31) as compared to Rs.162.60 crore in FY18.

##### **Low profitability margins**

The profitability margins of the company stood low marked by PBILDT margin and PAT margin at 1.47% and 0.87% in FY19 respectively (PY: (0.62% and 0.68% respectively).

##### **Leveraged capital structure**

The overall gearing ratio stood leveraged at 1.86x as on March 31, 2019 (PY: 1.72x).

##### **Raw material price variability**

Raw material constitutes more than 70% of the total cost of production during FY14 which exposes the company to the raw material price volatility risk due to the volatility experienced in the prices of iron scrap.

##### **Highly fragmented nature of industry characterized by intense competition**

The spectrum of the steel industry in which the company operates is highly fragmented and competitive marked by the presence of numerous players in India. Hence the players in the industry do not have any pricing power and are exposed to competition induced pressures on profitability.

##### **Fortunes linked to the steel industry which is cyclical in nature**

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel products is sensitive to trends of particular industries such as automotive, construction, infrastructure, etc. which are the key consumers of steel products. When downturns occur in these economies or sectors, steel industry may witness decline in demand, which may lead to decrease in steel prices putting pressure on the company.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

\*Issuer did not cooperate; Based on best available information

**Key rating strengths****Experienced promoters and long track record of operations**

SSPL is being managed by promoters namely Mr. Sanjay Aggarwal, Mr. Swatantar Aggarwal, Mr. Bhimsen Aggarwal and Mr. Ajay Aggarwal. Mr. Sanjay Aggarwal has more than two decades of experience in the iron & steel related business through his association with this company.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

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

[Financial ratios –Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

**About the company**

Sapcon Steels Private Limited (SSPL), based in Jammu, Jammu & Kashmir was incorporated in July, 1992 by Mr. Sanjay Aggarwal, Mr. Swatantar Aggarwal, Mr. Bhimsen Aggarwal and Mr. Ajay Aggarwal. SSPL is primarily engaged in trading of iron and steel products such as rods, bars, angles, channels, beams, plates and flats. The company caters to various construction and private infrastructure companies such as IRCON International Limited, AFCONS Infrastructure Limited and Larsen & Toubro Limited. The company is an authorized dealer and procures these products directly from suppliers such as Steel Authority of India Limited (SAIL), Rashtriya Ispat Nigam Limited, Kamdhenu Steel Authority of India Limited, etc.

**Covenants of rated instrument / facility:** Not Applicable

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	162.60	245.62
PBILDT	1.01	3.60
PAT	1.10	2.14
Overall gearing (times)	1.72	1.86
Interest coverage (times)	1.07	2.58

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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE B; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information

**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-Cash Credit	LT	4.00	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (24-Oct-19)	1)CARE B+; ISSUER NOT COOPERATING* (05-Jul-18)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (24-Oct-19)	1)CARE A4; ISSUER NOT COOPERATING* (05-Jul-18)	-
3.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (24-Oct-19)	1)CARE A4; ISSUER NOT COOPERATING* (05-Jul-18)	-

\*Issuer did not cooperate; based on best available information

**Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable****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.	Non-fund-based - ST-Bank Guarantees	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. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**