Sunflag Iron And Steel Co Limited

Jan 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,192.19 (Enhanced from 1,180.74)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	540.68 (Enhanced from 500.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Long-term / Short-term bank facilities#	57.97 (Reduced from 124.45)	CARE A+; Stable / CARE A1+	Revised from CARE A+; Stable
Commercial paper	-	-	Withdrawn

Details of instruments/facilities in Annexure-1. #Reclassified from LT to LT/ST.
Note: Withdrawal for proposed CP and balance proposed non-fund limits have been done basis withdrawal request from the client and confirmation that the same has not been raised.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Sunflag Iron and Steel Co Limited (SISCL) factors in the established position and long track record of SISCL in the manufacturing of different alloy and carbon steel products. The rating also takes into consideration healthy demand outlook for the automobile sector, which is one of the key end-user industries for SISCL products, with SICL having approvals from major auto original equipment manufacturers (OEMs) (who are the company's primary customers). The company has an integrated manufacturing steel plant which is strategically located in the central part of the country.

For FY23 (FY refers to the period from April 01 to March 31), SISCL reported gross sale of around ₹3,657 crore as compared to ₹2,698 crore in FY22, recording a year-on-year YoY growth of around 36 percent, equally contributed by growth in sales volumes of around 17 percent and sales realizations of around 15 per cent. While the company was able to pass on the increase in raw material prices to the end-use customers, profitability margins of the company were marginally impacted owing to the higher inventory cost. The risk is though mitigated to an extent as the prices of finished goods moving in tandem with the increase/decrease in raw material prices although with a time lag.

During H1FY24 (refers to the period from April 01 to September 30), the company had undertaken an extended shutdown of its blast furnace to improve upon the productivity of its plant. Furthermore, owing to higher volatility in raw material prices (especially coking coal) the overall sales volumes and profitability of the company were impacted during the first half of FY24. However, CARE Ratings Limited (CARE Ratings) believe, during the second half of FY24, with the softening of raw material prices and continuing robust demand in the domestic markets, the company is likely to showcase improvement in both its revenues and profitability. Additionally, the company has received approvals from various government entities for supply of super alloy products. This segment has hi-tech applications and will garner better realizations and will help in improvement in overall profit margins in the future when significant orders come through.

As per the settlement through arbitral tribunal with respect to dispute settlement with Lloyds Metals and energy (LMEL), SISCL had been allocated optionally fully convertible debentures (OFCD) of LMEL in April 2022. The company exercised the OFCD on March 16, 2023, resultantly, the company now holds 11.89% stake in LMEL.

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

The ratings further favorably factor in the strong financial risk profile of SISCL marked by comfortable debt protection metrics (overall gearing improving to 0.30x as on March 31, 2023 as against 0.51x as on March 31, 2022) and adequate liquidity position with access to capital markets and unutilized working capital limits.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to lead to positive rating action

- Healthy profit before interest, lease rentals, depreciation, and tax (PBILDT) margins above 14% on sustained basis.
- Sustained annual gross cash accruals from operating activity above ₹250 crore.
- Sustenance of Total Debt by gross cash accruals below 2.0x over the projected period
- Reduced external dependency for key raw material i.e., iron ore.

Negative factors- Factors likely to lead to negative rating action

- Slow-down in the end-user segment (Auto, Railways) leading to decline in operating profitability levels (PBILDT margin below 12%) or interest coverage ratio below 4.0 times.
- Debt-funded capex 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 (more than four months).
- Any negative impact on networth due to impairment or MTM losses in existing investments.

Analytical approach: Consolidated

CARE Ratings has analyzed 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. Details of the subsidiaries have been covered in Annexure-6.

Outlook: Stable

The stable outlook reflects that SISCL will continue to derive stable revenues and cash flows due to its established position in the market and long-standing customer relationships and repeat orders as well. The company has approvals from major automobile OEMs, ordnance factories and government entities for supply of the alloy-steel products. Furthermore, the financial risk profile is expected to remain comfortable, given that the company has just completed the capacity expansion in the last fiscal.

Detailed description of the key rating drivers:

Key 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 Ravi Bushan Bhardwaj (Chairman). The promoters have rich experience of over five decades in the iron and steel industry. 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.

Semi-integrated operations with strategic location and raw material arrangements in place

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 company manufactures sponge iron and pig iron in-house using Direct reduced iron (plant) and mini blast furnace (MBF). The intermediate products like blooms/billets are used majorly for own use for manufacturing rolled steel products. The rolling capacity increased from 4 Lakh metric tonnes per annum (mtpa) to 6.68 mtpa, with the commissioning of the additional capacity expansion towards blooming mill. 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). Coal is mainly procured from the captive mines and Iron ore is mainly procured from LMEL. Additionally, the company is in process of licensing and development of additional coal mine, which has commercial mining rights.

Operational performance improved on the back of demand in end-use segment

Net sales for FY23 stood at ₹3,487 crore with 29.52% YoY growth. The sales volume for rolled products (which had declined during FY20 to FY21) have surpassed the pre-pandemic levels (FY19) again at 3.55 lakh mtpa. On the industry front, automobile sales volume has revamped 20% YoY after two fiscals of overall decline in FY21 and FY22. This has helped with volume demand (15% YoY) for rolled products of SISCL, because major sales are towards automobile OEMs. Resultantly, gross sales for rolled products (which contribute around90% of overall sales) improved 36% YoY, further aided by improved sales realization (19% YoY). The PBILDT margins of the company declined by 180 bps to 12.77% due to higher cost for coking coal and increased power cost.

Diversified product portfolio with preferred vendor status from major Auto OEMs

The product portfolio of SISCL comprises of Carbon Steels, Alloy Steels, Free & Semi Free Cutting Steels, Micro-Alloyed Steels, Stainless Steels, Spring Steels, Valve Steels, Bearing Steels, Cold Heading Quality Steels, and Tool Steels which are available in various profiles such as Round Bars, Round Cornered Squares in straight bars, Round & Hexagonal wire Rods as coils, Hexagonal and Flat sections straight bars, as well as Bright Bars. Also, SISCL has collaboration with Daido Steel Company (Japan). The marketing presence of the company spreads across 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 (including railways, defence), however revenue concentration from top 10 customers has remained between 20-30%. The orders from railways and defence players are expected to remain strong on the back of higher government budget outlay this fiscal.

Financial risk profile improved with increase in net worth

The overall gearing stood at 0.30x (as on Mar-31, 2023) as against 0.51x (as on March 31, 2022). Apart from healthy cash accruals, dispute settlement with LMEL, has also contributed for TNW almost doubling for March 31, 2023 (as against March 31, 2022). Coverage indicators are comfortable with interest coverage ratio and total debt/PBILDT ratio at 5.5x and 2.0x respectively as on Mar 31, 2023. Total debt/gross cash accruals was weak for FY23 as the company had tax outgo of around ₹300 crore pertaining to the exceptional gain from OFCD allotment, which more or less offset the actual gross cash accruals for the period. The gross loan repayments of around ₹130 crore due for FY24, are expected to comfortably met from the internal accruals.

Key weaknesses

Susceptibility to volatility in raw material prices and forex risk

Raw material consumption is the single largest cost component for SISCL, constituting about 70-80% 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, coking coal, 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.

Working capital intensive operations

SISCL has operating cycle of 75 days in FY23 as against 88 days in FY22 on account of relatively lower collection days and inventory holding period of 31 days and 104 days respectively. 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.

Liquidity: Adequate

The liquidity position is marked by cash and liquid investments of ₹126.18 crore (of which ₹106.51 crore is margin money). However, the quick ratio has generally remained below unity in the past due to higher inventory. This is attributable to integrated nature of operations for manufacturing of sponge iron and pig iron for steel production, which mandates ready availability of raw material. The company uses the working capital limits sanctioned from banks for meeting unanticipated liquidity requirements, which cannot be met via internal accruals. The gross loan repayments of around ₹130 crore for FY24, are expected to comfortably met from the internal accruals. Some of the additional internal accruals will be devoted towards discretionary capex related to development of new mines. The capital expenditure to be funded with mix of debt and equity. The comfort on the liquidity risk is drawn from company's access to capital markets (being listed) and unutilised working capital limits.

Assumptions/Covenants Not applicable

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	**Power consumption: Moderate** Acquired (31% stake) in a renewable (solar) power producing company with 71 MW of planned capacity for a consideration of ₹36 crores. The acquired company is under construction stage and has been acquired for captive power consumption. **Environmental emissions: High** Being a steel manufacturing plant, the power consumption and GHG emissions are generally high. Emissions are within permissible limits of Pollution control board (Electro-static precipitator and Secondary Fume Extraction system installed). **Solid Wastage & recycling: Moderate** 13% of input material comprises recycled material, due to re-use of scrap steel.
Social	**Gender diversity- Low** 6 out of 753 employees are women. While two out of 12 board of directors are women. **Safety standards: Adequate** Company is certified for ISO 14001 (environmental management system) and ISO 45001 (Occupational health and safety management system). **Employee Attrition & Trainings: Adequate.** Attrition rate moderate at 17.94% for FY23. Of the 1,885 trainings conducted, 53% were for safety training and 47% on skill-upgradation for employees.
Governance	**Board independency- Adequate representation** 50% of the board consists of independent directors (6 out of 12). **Participation of board members: Active** Of the 5 meetings done during the fiscal, attendance rate for all the independent directors attended all the meetings and AGM was adequate. **Internal financial controls:** Adequate

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
Manufacturing Companies
Steel
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial products	Iron & Steel products

Incorporated in September 1984, SISCL is the flagship company of the Nagpur (Maharashtra) based Sunflag Group, promoted by the Bharadwaj brothers i.e. Late P B. Bharadwaj and 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 September 30, 2023. 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 6.68 Lakh MTPA for rolled products.

Brief Financials (₹ crore)	FY2022 (A)	FY2023 (A)	H1FY2024 (UA)
Total operating income	2693.25	3488.42	1645.29
PBILDT	392.71	445.58	181.97
PAT	217.02	1115.31	64.63
Overall gearing (times)	0.51	0.30	-
Interest coverage (times)	9.43	5.51	3.90

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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		7 days to 365 days	0.00	Withdrawn
Fund-based - LT-Cash credit		-	-	-	606.93	CARE A+; Stable
Fund-based - LT-Term loan		-	-	31-03-2028	289.36	CARE A+; Stable
Fund-based - LT-Term loan		-	-	31-03-2028	295.90	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC #		-	-	-	57.97	CARE A+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	540.68	CARE A+; Stable / CARE A1+

Reclassified from Non-Fund based (LT-LC) to Non-Fund based - (LT/ST- BG/LC)

Note: Withdrawal for proposed CP and balance proposed non-fund limits of Rs. 25.08 crores have been done basis withdrawal request from the client and confirmation that the same has not been raised.

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 2023-2024	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
1	Fund-based - LT-Term loan	LT	295.90	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-23) 2)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)
2	Fund-based - LT-Cash credit	LT	606.93	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-23) 2)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)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	540.68	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (05-Jan-23) 2)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)
4	Fund-based - LT-Term loan	LT	289.36	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-23) 2)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/ ST-BG/LC	LT/ST*	57.97	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable	1)CARE A+; Stable (03-Jan-22) 2)CARE A; Positive	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						(25-Aug-22)	(06-Jul-21)	
6	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	1)CARE A1+ (05-Jan-23) 2)CARE A1+ (25-Aug-22)	1)CARE A1+ (03-Jan-22)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the 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.

Annexure-6: List of subsidiaries, JV

Subsidiary	% of shareholding (Mar 31, 2023)
Sunflag Power Limited	100.00
Khappa Coal Company Private Limited	63.27
Joint Ventures	
Madanpur (North) Coal Company Private Limited	11.73
Daido DMS India Private Limited	17.56
Ramesh Sunwire Private Limited	49.00
C T Mining Private Limited	31.80

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About us:
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