Synergy Steels Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	351.82 (Enhanced from 334.87)	CARE A-; Negative	Reaffirmed
Short Term Bank Facilities	250.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Synergy Steels Limited (SSL) continues to derive strength from its experienced promoters along with company's long track record of operations in the stainless- steel industry. The ratings also continue to take comfort from the sustained level of scale of operations in FY24 (Prov.) despite continuous correction in the steel prices during the year & improvement in profitability margins.

These rating strengths, however, continue to remain constrained by susceptibility to volatility in steel scrap and nickel prices, exposure towards forex fluctuation risk and competitive & cyclic nature of stainless-steel industry. The ratings also take cognizance of the moderation in the operating cycle during FY24 (Prov.) (refers to period April 01 to March 31) and elevated debt levels of the company on account of higher utilisation of working capital borrowings leading to moderation in the overall gearing and debt coverage indicators. The ratings take note of proposed fund infusion by the promoters aggregating Rs.40 crore in FY25 and FY26 to support the incremental working capital requirement.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the total operating income (TOI) above ₹2,400 crore (excluding GST) and PBILDT per ton above ₹6,000 on a sustained basis.
- Improvement in the financial risk profile with overall gearing below unity and total debt/PBILDT below 2x on a sustained basis.

Negative factors

- Decline in the sales volumes below 125,000 tons and PBILDT per ton below ₹4,000 on a sustained basis.
- Deterioration in return on capital employed (ROCE) below 8% on a sustained basis.
- Deterioration in the overall gearing above 1.30x and/or total debt/PBILDT above 4.75x on a sustained basis.
- Any delay in infusion of envisaged funds by the promoters.

Analytical approach: Standalone

Outlook: Negative

The outlook for SSL has been 'Negative' basis CARE's expectation of continuing reliance on bank borrowings largely to support the high working capital requirements of the company represented through elevated debt levels, deterioration in debt coverage indicators. The outlook may be revised to stable in case SSL demonstrates continuous improvement in profitability margins along with fund infusion by the promoters and simultaneously maintains adequate buffer in working capital limits at all times to meet any future exigencies leading to improvement in the overall financial risk profile of the company.

[1]Complete 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 strengths

Experienced promoters and long track record of operations

The promoters of the company have experience of over three decades. Mr.Subhash Chander Kathuria is the Chairman and Managing Director of the company, and the operations of the company are presently being managed by Anubhav Khathuria, son of Subhash Chander Khathuria.

Sustained TOI with improvement in profitability margins reported during FY24 (Prov)

SSL has reported sustained scale of operations at Rs. 2,023.46 crores in FY24 (Prov.), witnessing nominal degrowth of 4.06% over TOI of Rs. 2,109.18 crore in FY23. The sustained scale was largely supported by volume growth in the company's products, rising from 1,37,646 (MT) in FY23 to 1,55,704 (MT) in FY24. However, this growth was partially offset by decline in average sales realization due to continuous correction in steel prices during the year. The major products of the company include steel wire rods, steel flats, bright bars, etc., with sales contribution of close to 65%-75% coming from SS wire rods which commands slightly lower margin compared to SS wire drawings and bright bars.

The PBILDT margins improved from 2.79% in FY23 to 4.45% in FY24, notably, the company is focusing on adding value added products (more premium SS grades & categories) which fetch better realizations & profitability margins. Further, the company is also working on optimizing the operational & manufacturing process, company also witnessed reduction in the overall cost of materials consumed, as company benefited from decline in the nickel prices during the year. The PBILDT margin remains low and rangebound at around 4% to 5%.

Moderate financial risk profile

The financial risk profile of SSL stands moderate in FY24 (Prov) represented by overall gearing of 1.23x as on March 31, 2024, as against 1.26 times as on March 31, 2023. The debt levels increased from Rs. 388.42 crores in FY23 to Rs. 409.89 crores in FY24 largely on account of corporate TL of Rs. 30.25 crores taken as partial reimbursement for capex incurred in past 2 years for capacity enhancement of melting & rolling facilities along with continuous dependence on bank borrowings to support the higher working capital requirements. The networth base grew from Rs. 300.40 as on March 31, 2023 to Rs. 332.48 crores as on March 31, 2024, on account of accretion of profits to reserves.

The PBILDT Interest coverage ratio stood at 2.92x improved from 2.56x in FY23, on account of better profitability margins during FY24 (prov.), though interest cost increased in tandem with upward revision in ROI by approximately 50 to 100 bps and elevated debt levels. Other debt coverage indicators including total debt/PBILDT improved from 6.59x as on March 31, 2023 to 4.55x as on March 31, 2024.

Further, the promoters are planning to infuse total of ~Rs. 40 crores in the company, partial infusion of ~Rs. 20 crores is expected to come by Q4FY25 (refers to the period January 01 to March 31) and remaining balance is expected to come during FY26, to reduce the debt levels & support the liquidity position of the company.

Key weaknesses

Moderate operating cycle

The company's working capital cycle is moderate at around 60-70 days. The company maintains average inventory of 50-60 days including raw material inventory of 20-25 days as procurement is carried out on back-to-back basis. The average collection period is around 24 days as on March 31, 2024 (PY: 31 days), while the Average creditor's period stands at 21 days as on March 31, 2023 (PY: 25 days) and average inventory days stood increased to 71 days as on March 31, 2024 increased from 49 days as on March 31, 2023. The high level of inventory in FY24 is due to increased product and grade categories require a minimum quantity of each grade raw material and finished goods, eliminate market risk as well as operational risk, & further on account of red sea issue, freight disruptions, import lead time.

Highly competitive and cyclic nature of stainless-steel industry

The stainless-steel bars and wire rods industry is highly competitive with presence of various organised and unorganised players; however, the risk is partially mitigated as the company has diversified product base including SS wire rods, wire drawing, round bars, bright bars, flats, etc. The margins continue to remain low and under pressure due to fragmentation and low bargain power across industry. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply.

Susceptibility to volatility in raw material prices

The major raw material for the company is stainless steel scrap, the prices of which remain volatile. Also, the global nickel price is a key pertinent factor deriving the fluctuation in the stainless-steel prices. Any sharp change in the prices may have a bearing on the operating margins of the company. Furthermore, the domestic steel prices are currently hovering around a marginal discount to international prices, as domestic steelmakers believe any further increase in the prices may weigh down their domestic sales volumes.

Exposure to forex fluctuation risk

The company caters to domestic and overseas market including countries like Germany, Turkey, Mexico, Finland, UAE among others. The total imports including raw material and consumables, spares, etc., is around 30%-40% of the total requirement of the company. The total exports of the company remained low at 10.39% in FY24 declined from 11.77% in FY23. The risk of forex exchange fluctuation due to any sudden fall or rise in rupee value is persistent, however, the same is partially mitigated as the company has been using natural hedging strategies and forward contracts to hedge the forex exposure. During year FY24, the company reported forex gain of ₹3.90 crore (PY: ₹1.98 crore).

Liquidity: Adequate

The company has adequate liquidity characterised by expected GCA of around ₹52 crore in FY25 against nominal scheduled debt repayment of ₹9.80 crore and residual can be used to meet incremental capex or working capital requirements. Furthermore, the company has liquidity buffer available in the form of unutilised WC limits to the tune of approximately ₹24 crore for the month ending with May 31, 2024, along with free cash and cash equivalents amounting to ₹0.80 crore as on May 31, 2024, reflecting adequate liquidity position of the company.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Short Term Instruments
Manufacturing Companies
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Iron & Steel

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

Synergy Steels Limited (SSL) was incorporated in the year 1973 as Paliwal Mini Steel (India) Limited and later acquired by Subhash Chander Kathuria (Chairman and Managing Director) in 2001. SSL is an integrated stainless-steel manufacturer engaged into manufacturing of stainless- steel wire rods, wire drawing, round bars, bright bars, flats, etc., from scrap at its manufacturing plant located at Alwar, Rajasthan.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	2,252.24	2,109.18	2,023.46
PBILDT	115.88	58.92	90.07
PAT	71.80	17.14	31.41
Overall gearing (times)	0.86	1.26	1.23
Interest coverage (times)	6.45	2.56	2.92

A: Audited Prov,: Provisional; 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
Fund-based - LT-Cash Credit		-	-	-	325.00	CARE A-; Negative
Fund-based - LT-Term Loan		-	-	November 2026	26.82	CARE A-; Negative
Non-fund-based - ST-BG/LC		-	-	-	250.00	CARE A2+

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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	250.00	CARE A2+	-	1)CARE A2+ (06-Jul-23)	1)CARE A2+ (07-Nov-22)	1)CARE A2+ (22-Oct-21)
2	Fund-based - LT-Cash Credit	LT	325.00	CARE A-; Negative	-	1)CARE A-; Negative (06-Jul-23)	1)CARE A-; Stable (07-Nov-22)	1)CARE A-; Stable (22-Oct-21)
3	Fund-based - LT-Term Loan	LT	26.82	CARE A-; Negative	-	1)CARE A-; Negative (06-Jul-23)	1)CARE A-; Stable (07-Nov-22)	1)CARE A-; Stable (22-Oct-21)

LT: Long term; ST: Short term; LT/ST: 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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - 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.

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About us:
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