Sunflag Iron And Steel Co Limited

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,073.98 (Reduced from 1,192.19)	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	598.65	CARE A+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Sunflag Iron and Steel Co Limited (SISCL or the company) factors in the established position and long track record of SISCL in manufacturing of different alloy and carbon steel products supplied to major automobiles original equipment manufacturers (OEMs) (who are the company's primary customers). The rating also takes into consideration, diversification in the customer profile (with non-auto segment contributing 25-30% of sales), healthy sales realisations (though declining in accordance with current industry scenario) and the completion of major capex activity in the recent past. For the super alloy-plant commissioned in FY22, the company has received approvals from multiple marquee customers in the aerospace and defence sector. The company has been delivering test samples and the major revenues are expected to kick start in this segment from FY26 onwards, where-in the operating margins are expected to be healthy.

On a Y-o-Y basis, total operating income for FY24 (FY refers to the period from April 01 to March 31) declined by around 2 percent to ₹3,412 crores. The sales volume for rolled products (which contributes around 90% of the net sales) have remained stable at 3.55 lakh tonnes per annum (tpa), however, the blended sales realisations have inched down modestly. In accordance with the industry scenario, where-in majority of the steel players have seen fall in the price realisations during H1FY25, the blended sales realisations for SISCL have come down from ₹80,226/tonne in FY24 to ₹76,713/tonne in H1FY25. On the end-use industry front, automobile sales volume has increased by 12% YoY during FY24. Despite this, the volume demand for rolled products of SISCL has remained flattish, as the company had carried out blast furnace relining activity in Q1FY24 which impacted the overall volumes for FY24. Going ahead, we expect the volumes to increase for FY25, given that the company has already delivered 2.0 lakh metric tonnes of rolled products during H1FY25, resulting in annual run-rate of around 4 Lakh tonnes (vs 3.55 Lakh mtpa during FY24).

The ratings further favorably factor in the strong financial risk profile of SISCL marked by comfortable debt protection metrics with interest coverage ratio and net debt/PBILDT ratio at 3.86x and 2.17x respectively as on Mar 31, 2024. The tangible networth (TNW) has surged rapidly from ₹1413 crores as on Mar 31, 2022, to ₹4809 crores as on Mar 31, 2024. As per the settlement through arbitral tribunal with respect to dispute 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 11.48% stake in LMEL (as on Sep 30, 2024). The allocation of these investments and mark-to-market gains associated with LMEL investments has been surging the TNW for SISCL. CARE Ratings Limited (CARE Ratings) notes that the overall gearing (completely excluding the effect of LMEL investments and MTM) stood comfortable at 0.86x as on Mar 31, 2024 (vs 0.70x as on Mar 31, 2023). The divestment or deployment of some of the proceeds towards core business operations would be positive and augur well for the credit risk profile of the entity.

The rating strengths are however, tempered by susceptibility of the company's operating margins to the volatility in raw material prices and higher working capital requirements. The risk is though mitigated to an extent as the prices of finished goods move in tandem with the increase/decrease in raw material prices although with a time lag. Apart from working-capital intensive

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

operations, the company has high exposure to the auto segment (around 70-75%) which remains cyclical. The working capital cycle is expected to elongate further from the current levels, largely on account of import of raw material for the manufacturing of various super-alloy products.

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.
- 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 below ₹8000/tonne on a sustained basis.
- Any significant debt-funded capex and/or significant decline in profitability, leading to an increase in debt coverage indicators (Net Debt/PBILDT above 2.0x) on a sustained basis.
- Sizeable stretch in working capital cycle (more than four months).

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 its 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 consistent orders 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 recently completed the capacity expansion for the blooming mill and super-alloy plant.

Detailed description of 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 and completion of capacity expansion:

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.

However, the rolling capacity increased from 4 Lakh metric tonnes per annum (mtpa) to 5 Lakh mtpa, with the commissioning of the additional capacity expansion towards blooming mill. Though the stabilisation and commercialisation of the additional capacity has been taking higher time than earlier expected the production during H1FY25 has been ramped up close to the optimum levels.

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

Net sales for FY24 stood at ₹3,412 crores moderating by 2.16% YoY decline. The sales volume for rolled products (which contributes around 90% of the net sales) have remained stable at 3.55 lakh metric tons per annum (mtpa), while the sales realisations have inched down modestly. Around 70-75% of the sales of SISCL are towards auto industry. On the industry front, automobile sales volume has increased by 12% YoY during FY24. Despite this, the volume demand for rolled products of SISCL has been flattish, as the company had carried out blast furnace relining activity in Q1FY24 which impacted the overall volumes for FY24. Going ahead, we expect the volumes to increase for FY25, given that the company has already delivered 2.0 lakh metric tonnes of rolled products during H1FY25, resulting in computed annual run-rate of around 4 Lakh tonnes (vs 3.55 Lakh mtpa during FY24).

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 25-30%. The orders from railways and defence players are expected to remain strong on the back of higher government budget outlay this fiscal.

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.

Cyclicality of the steel industry

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 conditions in the market. Apart from the demand-side fluctuations, the highly capital-intensive nature of steel projects along with the inordinate delays in the completion hinders the responsiveness of the supply side to demand movements. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to the volatility of the steel industry.

Working capital intensive operations

SISCL has modest operating cycle of 75 days in FY24 (as against 75 days in FY23) on account of relatively quicker collection and inventory holding period of 35 days and 104 days respectively as against 31 days and 104 days in FY23. The company has a comfortable collection period day. However, historically high operating cycle in the range of 3-4 months is due to high inventory holding period mainly, as the company has an integrated steel plant and ready availability of raw material is critical. Going ahead, we expect the operating cycle to elongate with the expected high orders from super-alloy products, for which the key raw materials are imported, resulting in relatively much higher working capital cycle for such products.

Liquidity: Adequate

The liquidity position is marked by cash and liquid investments of ₹73.50 crore as on Sep 30, 2024 (and ₹220.65 crores as on Mar 31, 2024). 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 company has gross repayments of ₹116 crores for FY25. As against this, gross cash accruals for FY24 were at 237.91 crores during FY24 and expected to improve going ahead. 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** 13.53% of input material comprises recycled material, due to re-use of scrap steel.
Social	**Gender diversity- Low** 4 out of 818 employees are women. While 2 out of 10 board of directors are women as on Mar 31, 2024. **Safety standards: Followed** No of fatalities and lost-time injury frequency rate has been nil and 1 respectively for the employees during FY24. 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 19.19% for FY24. Of the 4789 trainings conducted, 58% were for safety training and 42% on skill-upgradation for employees.
Governance	**Board independency- Adequate representation** 60% of the board consists of independent directors (6 out of 10). **Participation of board members: Active** Of the 4 meetings done during the fiscal, attendance rate was strong given that all the independent directors had attended all the 4 meetings. **Internal financial controls:** Adequate

Applicable criteria

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

Iron & Steel

About the company and industry

Industry classification

Macroeconomic 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, 2024. 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 5 Lakh MTPA for rolled products.

Brief Financials (₹ crore)	FY2023 (A)	FY2024 (A)	H1FY2025 (UA)
Total operating income	3488.42	3413.06	1771.57
PBILDT	445.58	373.22	189.29
PAT	1115.31	143.55	68.69
Overall gearing (times)	0.30	0.21	-
Interest coverage (times)	5.51	3.86	4.07

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	606.93	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	31-12-2027	224.42	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	31-12-2027	242.63	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+

Note: Earlier rated term loans of ₹35.94 crores (Axis Finance) and ₹11.89 crores (Canara Bank) withdrawn basis no due certificate.

Annexure-2: Rating history for 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	Fund-based - LT-Term Loan	LT	242.63	CARE A+; Stable	-	1)CARE A+; Stable (04-Jan-24)	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)
2	Fund-based - LT-Cash Credit	LT	606.93	CARE A+; Stable	-	1)CARE A+; Stable (04-Jan-24)	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)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	540.68	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Jan-24)	1)CARE A+; Stable / CARE A1+ (05-Jan-23)	1)CARE A+; Stable / CARE A1+ (03-Jan-22)

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
							2)CARE A+; Stable / CARE A1+ (25-Aug-22)	2)CARE A; Positive / CARE A1 (06-Jul-21)
4	Fund-based - LT-Term Loan	LT	224.42	CARE A+; Stable	-	1)CARE A+; Stable (04-Jan-24)	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 / CARE A1+ (04-Jan-24)	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)
6	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (04-Jan-24)	1)CARE A1+ (05-Jan-23) 2)CARE A1+ (25-Aug-22)	1)CARE A1+ (03-Jan-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No.	Name of the entity	Extent of consolidation	Rationale for consolidation	Extent of Shareholding as on Mar 31, 2024 (%)
A	**Subsidiaries**			
1	Sunflag Power Limited	Full consolidation	Subsidiary, Operational & management linkages	100.00
2	Khappa Coal Company Private Limited			63.27
B	**Joint Ventures**			
3	Madanpur (North) Coal Company Private Limited	Equity method	JV	11.73
4	Daido DMS India Private Limited			17.56
5	Ramesh Sunwire Private Limited			49.00
6	C T Mining Private Limited			31.80

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in Hitesh Avachat Associate Director **CARE Ratings Limited** Phone: 912267543510 E-mail: hitesh.avachat@careedge.in Vivek Kothari Lead Analyst **CARE Ratings Limited** E-mail: Vivek.Kothari@careedge.in

About us:

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