

Sagar Steels

March 19, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	45.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BBB-; Stable and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	10.00	CARE A4+; ISSUER NOT COOPERATING*	Downgraded from CARE A3 and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

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

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Sagar Steels to monitor the rating(s) vide e-mail communications/letters dated January 03, 2025, February 06, 2025, and February 24, 2025, among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Sagar Steels bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING***.

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

The ratings have been revised on account of lack of clarity on future growth strategy and inability to monitor the performance of the company, which is critical for assessing the credit risk profile of the company. The ratings continue to derive strength from satisfactory capital structure albeit moderation witnessed due to withdrawal of entire profits in FY23 by partners and higher utilization of working capital limits as on balance sheet date, satisfactory debt coverage indicators and no planned debt funded capex in near term. The rating also factors in long experience of promoters in iron and steel industry, long established relationship with Tata Steels Limited, diversified customer profile along with availability of various fiscal incentives.

The ratings, however, continue to remain constrained by modest scale of operations, constitution of the entity as a partnership firm thereby exposing it to risk of withdrawal of partner's capital, susceptibility of profitability to volatility in price of traded goods and trading nature of Sagar Steel's operations leading to low profitability margin.

Analytical approach: Combined

For arriving at the ratings, CARE has combined the financials of Sagar Steels (SS) and Sagar Steel Processing and Manufacturing Unit (SSPMU), as these firms are controlled by common partners, exhibit cash flow fungibility and have operational linkages.

Outlook: Stable

Detailed description of key rating drivers:

At the time of last rating on April 01, 2024, the following were the rating strengths and weaknesses.

Key strengths

Experienced promoters:

Mr. Hemant Kumar Agarwal, Partner having more than two decades of experience in manufacturing and trading of steel products, looks after the day-to-day operation of the firm along with the support from Mrs. Sangita Agarwal (Partner), Mr. Mannan Agarwal (Partner), Mr. Yash Agarwal (son of Mr. Hemant Agarwal) and a team of experienced professional.

Authorized distributorship of Tata Steels Limited since 2000:

The firm is a distributor of Tata Steel Limited (TSL) to sell the Tata Steelium, Tata Galvano and Tata Astrum products of TSL in the northeast region of India. The long-standing relationship with TSL since 2000 mitigates the contract renewal risk.

Diversified customer profile:

The group has an established relationship with its customers and suppliers with which it has been dealing over the years. The customers of the group mainly include infrastructure and downstream iron and steel manufacturers. During FY23, SS's customer base was well diversified as top ten customers accounted for nearly 21% of total revenue (~15% in FY22).

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

Availability of various fiscal incentives:

By virtue of its location, SSPMU is eligible to indirect tax subsidy, income tax exemption, interest subsidy on working capital under the North-East Industrial and Investment Promotion Policy (NEIIP) 2007.

Satisfactory financial performance in FY23 and 9MFY24:

In FY23, income from operations increased by 10% to Rs. 396.43 crore for the combined entity, primarily due to increase in sale volume of false ceiling & shutters coupled with higher realization. PBILTD margins also improved to 5.51% from 4.89% due to same. In 9MFY24, the combined entity has reported turnover of Rs 324.85 crore with PBILTD margin of 4.85%. (without adjusting for inter-company transaction). Despite moderation in steel prices in current fiscal, the growth in scale of operation was driven by higher sales volume.

Satisfactory capital structure albeit moderation witnessed in FY23:

Although capital structure of the combined entity has moderated with overall gearing moderating to 1.44x as on March 31, 2023, as against 1.11x as on March 31, 2022, it continues to remain satisfactory. The moderation in gearing ratio is on account of withdrawal of entire profits in FY23 by partners and higher utilization of working capital limits as on balance sheet date. Withdrawal of capital by partners remain key rating sensitivity.

The PBILTD interest coverage ratio improved to 5.43x in FY23 from 4.31x in FY22 due to stable interest cost. However, the TD/GCA ratio moderated in FY23 to 5.37x (PY: 4.66x) due to higher utilization of working capital limits.

Key weaknesses

Modest scale of operation:

SS distributes around 60,000 TPA of Tata Steel products (HR/CR/GP coil or sheets) annually of which ~9% (For FY23) is sold to group firm SSPMU which in turn uses the same for manufacturing of Angles/Structural etc. SSPMU is a relatively a small player in the manufacturing of MS-Angles and Steel Structural with an installed capacity of 29,600 MTPA. The small size deprives the group from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress.

Risk of capital withdrawal due to partnership nature of the entities:

SS and SSPMU are partnership firms and accordingly exposed to inherent risk of partner's capital withdrawal at times of personal contingency of the partners and limited ability of the firm to raise capital. Combined capital withdrawn by partners stood at Rs 15.05 crore in FY23 as against Rs.10.78 crore in FY22 and Rs.6.30 crore in FY21.

Profitability susceptible to fluctuations in traded goods prices:

Indian steel industry is fragmented and competitive especially in the downstream segment with low level of product differentiation which results in very high competition leading to lower bargaining power with the customers. Being a commodity, prices of traded goods are volatile which may adversely impact the margins.

Low profitability margin due to trading nature of business

The liquidity is marked adequate for the combined entity with GCA of Rs 13.66 crore against debt repayment obligation of Rs 0.84 crore. The firm prepaid Rs.5.07 crore term loan and capital withdrawal by partners stood at Rs.15.05 crore in FY23. The same was funded through higher utilization of working capital limits. In FY24, the combined entity expected to generate sufficient cash accruals to meet its debt repayment obligation. The operating cycle improved in FY23 for the combined entity with 64 days against 72 days in FY22 attributable to faster collection and less inventory period. Furthermore, the average utilisation of cash credit limits for SS and SSPMU is 77% and 93% respectively for 12 months period ending January'24.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

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[Short Term Instruments](#)

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About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

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Combined Brief Financials (₹ crore)*	March 31, 2022 (UA)	March 31, 2023 (UA)	9MFY24(UA)#
Total operating income	294.10	297.74	324.85
PBILDT	10.05	9.16	15.78
PAT	4.41	4.00	NA
Overall gearing (times)	2.34	2.89	NA
Interest coverage (times)	3.39	3.32	NA

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

*Combined financials of SS and SSPMU.

#Not adjusted for inter-party transaction.

Standalone Brief Financials (₹ crore)*	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	294.10	297.74	272.43
PBILDT	10.05	9.16	8.89
PAT	4.41	4.00	NA
Overall gearing (times)	2.34	2.89	NA
Interest coverage (times)	3.39	3.32	NA

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

*Standalone financials of SS

Status of non-cooperation with previous CRA:

Brickwork has conducted the review on the basis of best available information and has classified SS as "Not cooperating" vide its press release dated September 20, 2024, on account of inadequate information.

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	-	-	-	-	35.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Electronic Dealer Financing Scheme	-	-	-	-	10.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	Dec 2027	0.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - ST-Bank Overdraft	-	-	-	-	10.00	CARE A4+; ISSUER NOT COOPERATING*

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

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-Electronic Dealer Financing Scheme	LT	10.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable (01-Apr-24)	1)CARE BBB-; Stable (05-Apr-23)	-	1)CARE BBB-; Stable (04-Mar-22)
2	Fund-based - LT-Cash Credit	LT	35.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable (01-Apr-24)	1)CARE BBB-; Stable (05-Apr-23)	-	1)CARE BBB-; Stable (04-Mar-22)
3	Fund-based - LT-Term Loan	LT	0.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable (01-Apr-24)	1)CARE BBB-; Stable (05-Apr-23)	-	1)CARE BBB-; Stable (04-Mar-22)
4	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A4+; ISSUER NOT COOPERATING*	1)CARE A3 (01-Apr-24)	1)CARE A3 (05-Apr-23)	-	1)CARE A3 (04-Mar-22)

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

LT: Long term; ST: 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-Electronic Dealer Financing Scheme	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Bank Overdraft	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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.

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About us:

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Disclaimer:

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