Sudhesh Industries Private Limited

April 22, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	49.28	CARE BB; Stable	Assigned
Long-term / Short-term bank facilities	40.00	CARE BB; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has conducted ratings assessment based on the combined approach by combining Sarvottam Rolling Mills Private Limited (SRMPL) and Sudhesh Industries Private Limited (SIPL), together referred to 'the group'.

Ratings assigned to bank facilities of SIPL are constrained by thin profitability margins and weak financial risk profile with leveraged capital structure and moderate net worth base. Ratings are further constrained by the group's presence in a highly competitive and cyclical steel industry and profit margins susceptible to raw material price volatility. However, ratings derive strength from its experienced promoters with long track record of business operations, consistent growth in scales of operations in FY24 (Audited, refers to April 01 to March 31) & 11MFY25 (Unaudited, refers to April 01 to February 28), and prudent working capital management.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in overall scale of operations by over ₹1,000 crore and improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 4.00% on a sustained basis.
- Growth in cash accruals above ₹20 crore and total debt to gross cash accruals (TD/GCA) below 7x on a sustained basis.

Negative factors

- Decline in scale of operations below ₹650 crore and PBILDT margin below 2.00% on a sustained basis.
- Any debt-funded capital expenditure resulting into overall gearing above 3.50x.
- Any substantial increase in its working capital requirements thus weakening its liquidity and financial profile.

Analytical approach:

CARE Ratings has conducted the assessment based on the combined approach by combining SRMPL and SIPL. These entities are engaged in similar business and have common management, operational, and financial linkages.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that the group will continue to benefit from its experienced promoters having long track record of operations to mitigate the inherent risk related to competitive and cyclical nature of industry.

Detailed description of key rating drivers:

Key weaknesses

Thin profitability margins despite improvements in FY24 and 11FY25

The group's operating margins have remained thin and reflected a fluctuating trend over FY20- FY24 in the range of 1.67% to 4.52% due to volatility in the raw material prices (which accounts for ~79.50% of the total cost in FY24) and intense competition within the industry, particularly from larger players. Operating margin remained low due to modest product differentiation and limited value addition in manufacturing billets and thermo-mechanically treated (TMT) bars. In FY24, the PBILDT margin improved to 2.39% in FY24 from 1.67% in FY23 due to marginal decrease in average raw material cost. However, the profit after tax (PAT) margins stood modest and stable at 0.44% in FY23 to 0.43% in FY24. The group has reported slight improvement in PBILDT and

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

PAT margins to 2.61% and 0.43%, respectively, in 11MFY25. Going forward, profitability is expected to improve owing to expected improvement in demand and better realisations with stable input costs.

Weak financial risk profile with leveraged capital structure and moderate net worth base

The group has moderate net worth base, stood at ₹52.76 crore as on March 31, 2024 (PY: ₹48.14 crore) with leveraged capital structure, as marked by an overall gearing of 3.18x as on March 31, 2024, moderated from 2.55x as on March 31, 2023, owing to increase in total debt levels from ₹122.67 crore in FY23 to 168.02 crore in FY24. Its debt profile largely comprises external debt in the form of working capital and term debt. The total outside liabilities to net worth (TOL/TNW) stood high at 3.92x as on March 31, 2024 (PY: 3.42x). Debt coverage indicators stood marginally weak due to moderate profitability against high overall debt and finance cost, as marked by moderate PBILDT interest coverage of 1.83x in FY24 (1.60x in FY23) and high TD/GCA of 19.01x in FY24 (PY: 16.61x). Going forward, the capital structure and debt coverage indicators are expected to improve considering profit accretion to reserves and repayment of term debt.

Susceptibility of margins to raw material price volatility

SRMPL and SIPL are susceptible to the price volatility of steel for both finished goods and the raw material. The major raw materials for the group are sponge iron and steel scrap (M.S Ingots and M.S bar among others), which are major cost driven (constituting ~(combined) 78.32% of total cost of sales in FY24) and their prices are volatile. Therefore, the cost base remains exposed to adverse price fluctuations in these raw materials prices. The raw materials are procured at prevailing market prices, exposing it to raw material price volatility. In general, the group is unable to pass on the increase in prices to their customers and maintain the prices per the market trends only.

Presence in a highly competitive and cyclical steel industry

TMT bars and mild steel ingots/billets are used in various industries, with construction and infrastructure industry being the largest demand segment. Thus, demand for TMT bars is largely linked to the demand in the construction and infrastructure (mainly real estate) segment, which closely follows the macroeconomic cycle and thus is cyclical in nature. There are large number of small and unorganised players in the TMT bars and mild steel ingots/billets manufacturing industry. The industry is characterised by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardised machinery for production. Thus, due to low value addition, presence in the lower segment of the value chain and fragmented nature of industry, the profitability of players engaged in manufacturing TMT bars and mild steel ingots/billets is inherently thin.

Key strengths

Experienced promoters with established track record of operations

The promoters' three-decade experience in the steel industry and the established reach of the Sarvottam brand in Uttar Pradesh, and nearby areas have helped the group to sustain its market position. Sanjay Kumar Jain, the Director, has over 25 years of experience in the steel industry and oversees the marketing and financial activities of the unit. His younger brother, Rajeev Jain, also has over 20 years of experience in the steel industry and manages the unit’s production and day-to-day operations. The experienced management and the long track record of operations have helped the group to establish a healthy relationship with its customers.

Consistent growth in scales of operations despite remained moderated

The group has reported consistent growth in revenue over the past five years from ₹349.59 crore in FY20 to ₹797.73 crore in FY24 exhibiting a compounded annual growth rate (CAGR) of 22.91% considering addition of manufacturing facilities through SIPL and improved customer demand, although sales realisation has moderated due to the competitive landscape. The scale of operations of the combined entities by 6.31% Y-o-Y from ₹750.34 crore in FY23 to ₹797.73 crore in FY24 is considering improved demand from customers as indicated by a y-o-y volume growth of 11.86% with combined sales volume increasing to 225,091 MT in FY24 (PY: 201,221 MT). However, there was a decline in combined sales realisation to ₹/MT 51,115 in FY24 (PY: ₹/MT 55,143) considering decline in steel prices during the year. The group has achieved topline of ₹788.01 crore in 11MFY25. Going forward, scale of operations is expected to grow considering improvement in demand, and better sales realisation.

Prudent working capital management

The group’s operating cycle stood at comfortable level of 36 days (PY: 38 days). Group extends credit period of 10-15 days to its customers. Average collection period of group stands at 17 days in FY24 (PY: 13 days), group hold inventory for close to one-month period, having average inventory days 30 days in FY24 (PY: 33 days). The group does not enjoy credit period from its major suppliers and makes payment in advance or settle the dues within 7-10 days, average creditors days stood at 10 days in FY24 (PY: 8 days).

Liquidity: Stretched

The group's liquidity position is stretched, marked by below unity quick ratio of 0.65x, moderate current ratio of 1.25x, high working capital utilisation of ~92.63% (combined average) over the past 12 months ending February 2025. The group has expected GCA of ₹12.90 crore and ₹16.10 against repayment obligations of ₹8.33 crore & ₹9.28 crore in FY25 and FY26, respectively. Free cash and bank balance stood moderate at ₹5.24 crore as on February 28, 2025. Cash flow from operations improved to ₹11.78 crore in FY24 against negative ₹9.59 crore in FY24. GCA improved to ₹8.84 crore in FY24 (PY: ₹7.39 crore).

Applicable criteria

Policy on Default Recognition
Consolidation & Combined Approach
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Rating of Short Term Instruments
Iron & Steel
Manufacturing Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Iron & steel products

Incorporated in December 2019, SIPL started operations by acquisition of existing TMT Bar Facility of M/s Sadhbhawana Impex Private Limited under NCLT in FY21, and the production commenced from April 2021. The manufacturing facility of SIPL is in Bahraich (U.P.). The company is running its furnace and rolling plant having installed capacity of 180,000 MT and 168,000 MT for manufacturing M.S. Billets and T.M.T Bars, respectively, as on March 31, 2024. SIPL has a franchise agreement with Kamdhenu Limited, where the company sells its products under the 'Kamdhenu' brand. The company has two furnaces of 30 MT each with one concast machine. SIPL is promoted by Sanjay Kumar Jain and Rajeev Jain.

Brief Financials (₹ crore)-Standalone	March 31, 2023 (A)	March 31, 2024 (A)	11MFY25 (UA)
Total operating income	403.43	475.04	481.24
PBILDT	6.65	12.54	13.51
PAT	0.46	1.89	1.91
Overall gearing (times)	8.84	9.25	9.10
Interest coverage (times)	1.21	1.67	1.67

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

Brief Financials (₹ crore)-Combined	March 31, 2023 (A)	March 31, 2024 (A)	11MFY25 (UA)
Total operating income	750.34	797.73	788.01
PBILDT	12.51	19.10	20.57
PAT	3.27	3.42	3.37
Overall gearing (times)	2.55	3.18	2.87
Interest coverage (times)	1.60	1.83	1.84

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-Term Loan		-	-	March 31, 2030	49.28	CARE BB; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	40.00	CARE BB; Stable / CARE A4

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 2025-2026	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
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	40.00	CARE BB; Stable / CARE A4	-	-	-	-
2	Fund-based - LT-Term Loan	LT	49.28	CARE BB; Stable	-	-	-	-

LT: Long 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-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view 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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