

Shri Girija Smelters Limited

April 6, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	4.00	CARE BB-; Stable [Double B Minus; Outlook: Stable]	Revised from CARE B+; Stable; ISSUER NOT COOPERATING [B Plus; Outlook: Stable]; Removal of ISSUER NOT COOPERATING
Short-term Bank Facilities	23.00	CARE A4 [A Four]	Reaffirmed with Removal of ISSUER NOT COOPERATING
Total Facilities	27.00 (Rs. Twenty seven crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Shri Girija Smelters Limited (SGSL) take into account improved financial performance in FY17 (refers to the period April 01 to March 31). The ratings continue to be constrained by absence of captive source of power, exposure to forex fluctuation risk, significant exposure to its group companies and complete dependence of ferro alloys industry on the cyclical steel sector. Such ratings, however, continue to derive strength from rich experience of promoters with long track record of operations, established clientele and satisfactory capital structure.

The ability of the company to improve its scale of operations with improvement in profitability, sustain the capital structure and effective management of working capital would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Absence of captive source of power: Manufacturing of ferro alloys is a power intensive operation and power cost is the second most costly component of SGSL's total cost of production. SGSL does not have any captive power plant. Accordingly, absence of captive source of power has rendered SGSL's operations vulnerable to any revision in electricity tariff rates.

Exposure to forex fluctuation risk: Imported raw material comprised around 44% of total raw material purchased by SGAL during FY17 (around 60% in FY16). The company currently is not having any defined forex risk management policy and accordingly exposed to risks arising on account of forex fluctuations.

Significant exposure to its group companies: SGSL have total exposure of about Rs.31.77 crore in the form of investments in various group companies accounting for about 97.81% of its networth as on March 31, 2017. Moreover, SGSL has also extended corporate guarantee against bank facilities aggregating to of Rs.475 crore to its group company.

Complete dependence of ferro alloys industry on the cyclical steel sector: The demand for ferro alloys is a derived demand and its prospects are closely-linked to the demand emanating from the steel industry which is the major purchaser of ferro alloys. 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. The close linkage with the steel industry affects the ferro alloy industry also.

Key Rating Strengths

Rich experience of promoters with long track record of operations: Mr. C.S. Raju (Graduate, age 82 years) had extensive experience in the silico-manganese and ferro-manganese segments of about six decades. Mr. Raju started his career as an employee of Facor Alloys Ltd in 1956 and gradually became an entrepreneur. Currently, the day-to-day affairs of the company are looked after by Managing Director, Mr. C.V.S.S.R.R Raju (Son of Late Mr. C.S. Raju) having an experience of

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

more than two and half decades. SGSL, incorporated in 1987 (commenced commercial operations from April 1996) has a long track record of operations of more than two and half decades.

Established clientele: The client profile of the company includes large steel players with whom SGSL has long relationship. However, SGSL enjoys relatively low bargaining power in dealing with these players, which in turn leaves limited scope for the company to expand its margins.

Improved financial performance in FY17: Total operating income of SGSL declined by about 9.12% y-o-y to Rs.75.94 crore in FY17. However the trading of raw materials has witnessed 167% y-o-y increase to Rs.26.47cr in FY17. The company reported PBILDT of Rs.7.35crore (loss of Rs.2.71crore in FY16) in view of decrease in power & fuel costs which led to interest coverage ratio of 2.11x in FY17. SGSL reported GCA of Rs.3.65crore vis-à-vis nil debt repayment obligations in FY17.

Satisfactory capital structure: The capital structure of the company continued to remain satisfactory as on March 31, 2017. Overall gearing ratio improved from 0.95x as on March 31, 2016, to 0.74x as on March 31, 2017 attributable to decrease in working capital borrowings and other short term loans & advances.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for Short-term Instruments](#)
[CARE's methodology for manufacturing companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

SGSL, incorporated in 1987, was promoted by Mr C.S. Raju of Raipur (Chhattisgarh). SGSL is involved in the production of Ferro Manganese and Silico Manganese in its manufacturing units located in Urla Industrial Area of Raipur with an installed capacity of 36,000 MT. SGSL is a part of the Shri Girija group of companies, promoted and earlier headed by Mr C.S. Raju. Mr Raju had extensive experience of about six decades in the ferro alloy space. Currently, the day-to-day affairs of the company are looked after by Managing Director, Mr. C.V.S.S.R.R Raju (Son of Late Mr. C.S. Raju) having an experience of more than two and half decades.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	83.62	75.94
PBILDT	-2.72	7.35
PAT	-7.78	2.13
Overall gearing (times)	0.95	0.74
Interest coverage (times)	NM	2.11

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BB-; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.80	CARE A4
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	1.20	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	21.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (27-Feb-18)	1)CARE B+; Stable (12-Jan-17)	1)CARE B+ (03-Feb-16) 2)CARE B+ (12-Jan-16)
2.	Non-fund-based - ST-Letter of credit	ST	21.00	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (27-Feb-18)	1)CARE A4 (12-Jan-17)	1)CARE A4 (03-Feb-16) 2)CARE A4 (12-Jan-16)
3.	Non-fund-based - ST-Loan Equivalent Risk	ST	1.20	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (27-Feb-18)	1)CARE A4 (12-Jan-17)	1)CARE A4 (03-Feb-16)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.80	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (27-Feb-18)	1)CARE A4 (12-Jan-17)	1)CARE A4 (03-Feb-16)

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