

Sumangala Steel Private Limited

July 03, 2020

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------------|---|---|---|
| Long-term Bank Facilities | 26.93 | CARE BB+;Stable ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING) | Issuer not cooperating; Revised from CARE BBB; Stable; Issuer Not Cooperating (Triple B; Outlook: Stable; ISSUER NOT COOPERATING) on the basis of best available information. |
| Short-term Bank Facilities | 10.50 | CARE A4+ ISSUER NOT COOPERATING* (A four plus; ISSUER NOT COOPERATING) | Issuer not cooperating; Revised from CARE A3+; Issuer Not Cooperating (A Three Plus; ISSUER NOT COOPERATING) on the basis of best available information. |
| Total Facilities | 37.43 (Rs. Thirty seven crore and Forty Three Lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated October 14, 2019, placed the rating(s) of Sumangala Steel Private Limited (SSPL) under the 'issuer non-cooperating' category as SSPL had failed to provide information for monitoring of the rating. SSPL continues to be non-cooperative despite repeated requests for submission of information through phone calls and e-mails dated June 19, 2020 and June 24, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

The revision in the ratings assigned to the bank facilities of SSPL takes into account the absence of information required for the purpose of monitoring the rating.

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

Detailed description of the key rating drivers

At the time of last rating on October 14, 2019 the following were the rating strengths and weaknesses (Updated for information from RoC).

Key Rating Strengths

Experienced Promoter and long track record of operation: SSPL was established in the year 1985 and has a long operational track record of over three decades. The company is promoted by Mr Rajendra Sabanyagam who has as experience of 35 years in the steel industry. Mr Rajendra Sabanyagam is a former senior consultant of McKinsey & Company (Management consulting firm) and holds a Bachelor of Technology Degree from IIT (Madras), MS in the field of Engineering from New York and MBA from Columbia University, New York. SSPL was established in the year 1985 and has long track record of operations. However, the scale of operations continues to remain moderate and the installed capacity of SSPL as on March 31, 2018 stood at 84,000MT per annum. SSPL was also planning to enhance its production capacity through replacement of existing furnaces with efficient furnaces at a cost of Rs.16 crore, proposed to be funded by bank debt of Rs.12 crore and rest through internal accruals. However, same is in preliminary stage.

Improvement in scale of operations during FY19 albeit moderation in profitability: The operating income of SSPL has improved from Rs.281 crore in FY18 to Rs. 382 crores in FY19. The profitability marked by PBILDT margins dropped from 5.10% in FY18 to 4.76% in FY19 while the PAT margin moderated from 1.92% in FY18 to 1.65% in FY19.

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

Key Rating Weaknesses

Susceptibility to volatile price of raw materials: Steel scrap is the raw material used by SSPL for production of billets. The price of steel scrap is directly linked to the prevailing price of steel in the market. Steel being a commodity product, the prices are highly volatile in nature as a result price of steel scrap also witnessed fluctuations in the past. Due to commodity nature of finished product (TMT bars & Billets) operating profit margin is relatively low. Further, ability to pass on input cost increases is limited.

Highly competitive and cyclical nature of industry: Steel industry in India is highly fragmented with a number of domestic players adding new capacities in the recent years. Similarly, steel converters also face stiff competition from regional players. This apart, the demand for TMT bars mainly comes from housing and infrastructure. However, the same is linked to the fortunes of the economy which has a direct impact on the demand for the end product i.e., steel.

Liquidity- Adequate

The company's gross cash accruals stood at Rs. 13.89 crores in FY19 as against repayment obligation of Rs. 2.16 crores. The company's current ratio stood at 1.16x as on March 31st, 2019. The utilization as on date as per banker interaction of the CC account stood at 90%. The company has availed moratorium on term loan and working capital facilities to conserve cash flow amidst Covid-19 lockdown.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology –Manufacturing companies](#)

[Financial Ratios –Non Financial sector](#)

About the Company

Sumangala Steel Private Limited (SSPL) was established in the year 1985 and promoted by Mr Rajendran Sabanayagam. SSPL was mainly into manufacturing and sale of steel billets until 2015. In the year 2015, the company started an integrated thermo mechanically treated (TMT) bar facility at its Pondicherry facility and started producing TMT bars from billets. During FY18, sales from TMT bars constituted around 89% of the total revenue. As on March 31, 2018, SSPL has an installed capacity of 84,000MT.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income | 281 | 382 |
| PBILDIT | 14 | 18 |
| PAT | 5 | 6 |
| Overall gearing (times) | 0.85 | 0.90 |
| Interest coverage (times) | 3.45 | 5.21 |

A: Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating of CRISIL BBB-; Negative/ CRISIL A3 vide its press release dated December 15, 2016 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the entity.

Any other information: Not Applicable

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

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-Term Loan | - | - | April 2020 | 3.93 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable; ISSUER NOT COOPERATING* on the basis of best available information |
| Fund-based - LT-Cash Credit | - | - | - | 23.00 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable; ISSUER NOT COOPERATING* on the basis of best available information |
| Non-fund-based - ST-Letter of credit | - | - | - | 10.50 | CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+; ISSUER NOT COOPERATING* on the basis of best available information |

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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 3.93 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable; ISSUER NOT COOPERATING* on the basis of best available information | - | 1)CARE BBB; Stable; ISSUER NOT COOPERATING* (14-Oct-19) | 1)CARE BBB; Stable (06-Aug-18) | 1)CARE BBB-; Stable (04-Aug-17) 2)CARE BBB-; Stable (20-Jul-17) |
| 2. | Fund-based - LT-Cash Credit | LT | 23.00 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable; ISSUER NOT COOPERATING* on the basis of best available information | - | 1)CARE BBB; Stable; ISSUER NOT COOPERATING* (14-Oct-19) | 1)CARE BBB; Stable (06-Aug-18) | 1)CARE BBB-; Stable (04-Aug-17) 2)CARE BBB-; Stable (20-Jul-17) |
| 3. | Non-fund-based - ST-Letter of credit | ST | 10.50 | CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+; ISSUER NOT COOPERATING* on the basis of best available information | - | 1)CARE A3+; ISSUER NOT COOPERATING* (14-Oct-19) | 1)CARE A3+ (06-Aug-18) | 1)CARE A3 (04-Aug-17) |

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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About CARE Ratings:

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