

Sunflag Iron And Steel Co. Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	452.75 (reduced from Rs 472.07 crore)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	348.10	CARE A; Stable/CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Total facilities	800.85 (Rs. Eight Hundred crore and Eighty Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation to the bank facilities of Sunflag Iron & Steel Co. Limited (SISCL) continues to derive strength from experienced promoter with long track record in alloy steel manufacturing industry supported by team of qualified professionals, tie up with suppliers for procurement of raw material and an established client base albeit absence of any long term contracts. The rating takes cognizance of improvement in the scale of operation and profitability margins, comfortable capital structure and debt risk metrics for the period ended FY18 (FY refers to the period from April 1 to March 31) and 9MFY19 (refers to April 1 to December 31).

The rating strengths however are tempered by inherent cyclicity in the steel industry and SISCL's end user automobile industry, susceptibility of operating profitability to fluctuations in raw material prices and changes in government regulations, working capital intensive nature of business, and ongoing project risk.

Going forward, the ability of the company to further enhance and sustain the scale of operations along with improved profit & profitability margins & manage working capital effectively, the ability to successfully complete the on-going capex and further any large debt funded capex are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record in alloy steel manufacturing industry supported by a team of qualified professionals: The Sunflag group was promoted by the Bhardwaj brothers i.e. Late Mr. P. B. Bhardwaj and Mr. Ravi Bushan Bhardwaj (Chairman). The promoters have rich experience of over five decades in the iron and steel industry. Mr. 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 professionals from varied business background and qualifications.

Financial risk profile marked by robust growth in Total Operating Income, improvement in profitability margins:

SISCL has reported improvement in total operating income by 40.47% to Rs.2127.51 crore in FY18 as against Rs.1517.19 crore in FY17 on account of growth in automobile and auto component sector in the country and better sales realisations for steel products. SISCL majority of the revenues (95% of total income) are contributed by the rolled products segment where auto ancillary is the end user industry. The PBILDT margins improved by 152 bps to 11.60% during FY18 on account of decrease in manufacturing expenses (largely raw material cost accounted 64.49% in FY18 as against 66.69% in FY17 and power & fuel expenses accounted 5.75% in FY18 as against 8.08% in FY17). Further, the PAT level has improved y-o-y on account of reduced interest and depreciation charges during FY18.

Tie up with suppliers for procurement of raw material albeit absence of long term contracts: The company has established long standing relationship with its' suppliers resulting in ease of availability of raw materials mainly iron ore/fines, coke, ferro alloys etc. The requirement of thermal coal is met entirely from the captive coal mine located at Belgaon, Warora dist., Chandrapur, Maharashtra. Further, other major raw materials like iron ore/fines and coke is procured from domestic market. Furthermore, the requirement of sinter for blast furnace is met in house from semi integrated manufacturing facility. The top ten suppliers accounted for 43% of the total raw material cost of SISCL during FY18.

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

Marketing and selling arrangements in place:

The company has a strong and large marketing network across the country with its presence in all the major cities namely, Faridabad, Chennai, Pune, Mumbai, Nagpur, Delhi and Bangalore in India. Sunflag is an approved source for supplies to Original Equipment Manufacturers (OEMs) of various Auto Makers and therefore able to get orders on a regular basis. The top ten customers of the company account approximately 33% of the net sales during FY18 including OEMs who in-turn vendors to auto majors viz. Tata Motors Limited, Maruti Suzuki Limited, Bajaj Auto Limited and Mahindra & Mahindra Limited etc.

Comfortable capital structure and debt risk metrics:

The total debt consists of Rs.32.54 crore as unsecured loans, Rs.69.63 crore as term loans, Rs.164.48 as working capital borrowings and Rs.56.16 crore as bills discounted as on March 31, 2018.

Capital structure of SISCL has remained comfortable with debt to equity and overall gearing below unity as on March 31, 2018. While the debt to equity was at 0.14x as on March 31, 2018 (against 0.09x as on March 31, 2017); overall gearing was at 0.44x as on March 31, 2018 (against 0.55x as on March 31, 2017). The leverage position of the company has been improving y-o-y on account of repayment of term loan and sales tax loan coupled with accretion of profits to reserves. Further, SISCL has comfortable debt risk metrics with term debt/GCA at 0.73x in FY18 (0.65x in FY17) and total debt/GCA at 2.25x in FY18 (3.90x in FY17).

Key Rating Weaknesses
Working capital intensive nature of business:

SISCL has elongated working capital cycle days of 96 in FY18 as against 108 days in FY17. Elongated operating cycle is mainly due to high inventory holding period of 82 days in FY18 as against 98 days in FY17. However the company has comfortable collection period of 47 days (in FY18) as against 49 days (in FY17) resulting in better management of working capital requirement. However the average working capital utilization of the company remained low at 44% during last 12 months ended February, 2019. The company has cash and bank balance of Rs. 55.83 crore as on March 31, 2018 (as against Rs. 76.73 crore as on March 31, 2017), out of which Rs. 6.10 crore (10.92% of total cash and bank balance as on March 31, 2018) in free cash balance while rest is margin money deposit against LC & BG.

Ongoing project risk:

With a view to utilize the full potential of rolling mill at Blooming mill, the company has undertaken expansion of this unit to produce Rolled products demanding a higher degree of reduction ratio from bigger size blooms as far as possible by rolling with a single heating and thus reducing energy, cost and scale loss and inventory of intermediate products. Also, the company is expanding its existing Steel Melt shop to produce high quality clean steel. This will enable the company to diversify its products. Overall capital outlay for these projects is estimated at approximately Rs.480 crore and shall be executed over a period of FY19-FY21.

Timely completion of the same with minimal cost overrun would be important. Further, any large debt funded capex deteriorating the capital structure would be key rating monitor.

Exposure to volatility in raw material prices:

Raw material consumption is the single largest cost component for SISCL (constituting about 64.49 % of total cost of sales in FY18). The company mainly needs to purchase iron ore and coke from the market. Any adverse movement in the raw material price without corresponding movement in finished good price might affect the performance of the company. Though the prices of finished goods move in tandem with raw material prices, there is a time lag.

Cyclicality inherent in the steel industry: Steel is a highly capital intensive industry which is cyclical in nature. Its growth is intertwined with the growth of the economy at large and, in particular, the steel user industries such as automobile, housing, infrastructure and others.

Analytical approach: Consolidated. CARE has analyzed SISCL's credit profile by considering the financial statements of its subsidiaries (Sunflag Power Limited- 100% stake as on March 31, 2018, Khappa Coal Company Limited-63.27% stake as on March 31, 2018, and Sunflag foundation-100% stake as on March 31, 2018) and associates & Joint ventures (Daido DMS India Private Limited, Madanpur North Coal Company Private Limited, C T Mining Private Limited and Ramesh Sunwire Private Limited) for the year ended March 31, 2018 apart from financials of SISCL. However, all these companies are non-operational in nature as on March 31, 2018 except Daido DMS India Private Limited.

Applicable Criteria:[Criteria on assigning Outlook to Credit Ratings](#)[CARE's Policy on Default Recognition](#)[Rating Methodology-Manufacturing Companies](#)[Rating Methodology-Steel Companies](#)[Financial ratios – Non-Financial Sector](#)[Factoring Linkages in Ratings](#)**About the Company**

Incorporated in 1984, Sunflag Iron & Steel Co. Limited (SISCL) is the flagship company of the Nagpur (Maharashtra) based Sun Flag Group, promoted by Bharadwaj brother i.e. Late Mr. P B. Bharadwaj and Mr. Ravi Bhusan 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 SISCL has collaboration with Daido Steel Co. Ltd., Japan from 2010. The association is useful for process & Quality enhancements, new grade developments, localization of Indian steel by the automobile companies, continual improvements, etc.

The company has a semi integrated steel manufacturing facility located at Warthi, Bhanddara Road, Maharashtra with 32 MW captive power plant based on thermal and waste heat recovery.

SISCL captures the demand mainly from automobile segment for steel used in engine, drives, transmissions, suspensions etc. This apart, SISCL also supplies steel to Indian Railways, Ordnance factories, General Engineering & Power Sectors. SISCL is catering the requirement of steel in domestic as well as foreign market.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1516.91	2127.57
PBILDT	153.06	245.85
PAT	84.97	128.67
Overall gearing (times)	0.48	0.44
Interest coverage (times)	4.37	6.93

A: Audited

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-Term Loan	-	-	December 31, 2020	45.68	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	407.07	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	348.10	CARE A; Stable / CARE A1
Commercial Paper- Commercial Paper (Carved out)	-	-	-	0.00	Withdrawn

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.	Term Loan-Long Term	LT	208.39	Suspended	-	-	1)Suspended (12-Apr-16)	-
2.	Non-fund-based-Short Term	ST	325.00	Suspended	-	-	1)Suspended (12-Apr-16)	-
3.	Fund-based-LT/ST	LT/ST	410.00	Suspended	-	-	1)Suspended (12-Apr-16)	-
4.	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1 (28-Dec-17)	-	-
5.	Fund-based - LT-Term Loan	LT	45.68	CARE A; Stable	-	1)CARE A; Stable (05-Mar-18)	-	-
6.	Fund-based - LT-Cash Credit	LT	407.07	CARE A; Stable	-	1)CARE A; Stable (05-Mar-18)	-	-
7.	Non-fund-based - LT/ ST-BG/LC	LT/ST	348.10	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (05-Mar-18)	-	-

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