February 06, 2024

SRC Chemicals Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credit	10.50	10.50	[ICRA]BBB (Stable); reaffirmed
Short-term fund-based	14.00	14.00	[ICRA]A3+; reaffirmed
Short-term non-fund based	28.95	28.95	[ICRA]A3+; reaffirmed
Short-term fund-based – Interchangeable*	(28.95)	(28.95)	[ICRA]A3+; reaffirmed
Long-term fund-based – Term loan	2.47	2.47	[ICRA]BBB (Stable); reaffirmed
Unallocated limits – Fund-based/Non-fund based	39.08	39.08	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	**95.00**	**95.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of SRC Chemicals Private Limited (SRC) factors in the promoter's extensive experience in the industry and the company's established association with reputed customers with a history of repeat orders. While there was a healthy growth in turnover and cash accruals in FY2023, the situation reversed in FY2024 on account of a decline in realisations and increase in raw material costs, leading to EBITDA losses. ICRA notes that the company has not utilised the bank borrowings and has a comfortable liquidity position, marked by free cash and equivalents of more than Rs. 10 crore as of December-end. A comfortable liquidity position, absence of external debt and sufficient cushion in working capital limits keep SRC's credit profile comfortable. Further, ICRA expects the company's capitalisation metrics to remain healthy over the medium term in the absence of any major debt-funded capex.

The ratings are, however, constrained by SRC's moderate scale of operations and profit margins due to the limited value-added nature of its business. The company's revenues have remained susceptible to the cyclicality associated with the steel industry as it derives its entire revenue from the steel sector. Further, its profitability is also vulnerable to foreign exchange (forex) fluctuation risk and the movement in raw material prices. ICRA also takes note of the margin pressure witnessed in the current fiscal, which is likely to keep the debt coverage metrics subdued in the near term.

The Stable outlook on the rating factors in ICRA's expectations that despite the pressure on profitability, the available liquidity with the company is likely to keep the credit profile comfortable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in steel, minerals and ferro alloy industries – SRC is promoted by the Lakhotia family. The key promoter, Mr. Suresh Lakhotia, has an extensive experience in the steel, minerals and ferro alloy industries spanning over four decades.

Reputed customer base – The company's customer base consists of reputed steel manufacturers, namely the JSW Group, Tata Steel Limited and Steel Authority of India Limited, among others. The customer concentration has remained high with the top five customers contributing to 60-70% of the total revenues in the last two years. Although the customer concentration remains high, the company has been associated with these clients for a long period, resulting in repeat orders and mitigating the client concentration and counterparty credit risk to an extent.

Comfortable capital structure and liquidity position – SRC's capital structure has remained comfortable, reflected in the improvement in gearing to 0.13 times as on March 31, 2023 from 0.30 times as on March 31, 2022 on the back of a reduction in the debt level and accretion to reserves. With lower debt levels, the debt protection metrics also improved in FY2023, measured by interest coverage of 13.24 times (12.8 times in FY2022) and total debt/operating profit of 0.46 times (0.89 times in FY2022). The total debt as of October 2023 stood at Rs. 10.56 crore, which was entirely in the form of unsecured loans from promoters. While profitability pressures are likely to impact the debt coverage metrics for FY2024, the credit profile is expected to remain comfortable on the back of the adequate liquidity available with the company and lower utilisation of bank facilities.

Credit challenges

Moderate scale of operations; susceptibility of revenues to cyclicality of end-user steel industry – SRC's products find application in special steel used in the automobile and aeronautics industries. The company's operating income has remained moderate and vulnerable to the cyclicality in the steel industry. The company reported a turnover of Rs. 428 crore in FY2023 on account of an increase in the sales realisation and volume growth. The revenue was at Rs. 203.7 crore in 7M FY2024 on the back of muted volume growth and dip in realisations.

Low profitability margins due to limited value-added nature of business – The sales price of the products sold by SRC is mainly formula-based, with the company reporting an OPM of 3-4% in the last five years. The OPM has remained modest due to the low value additive nature of the operations. However, in FY2023, the OPM was 5.40%. The improvement in margins compared to the longer-term average of 3-4% has been attributed to the consistent increase in Fe-Mo prices due to elevated demand, even as the rise in raw material prices was not commensurate, widening the spreads as well as inventory gains. The scenario has worsened in the current fiscal with the company reporting operating margins of -1.15% till 7M FY2024, led by inventory loss and dip in realisations.

Vulnerability of profitability to raw material price movement and forex fluctuation risks – SRC sources its major raw materials like molybdenum oxide and aluminium cans through imports, which currently drive ~70-80% of its total purchases. The company's profitability remains vulnerable to forex fluctuation risks because of limited export sales and the absence of any hedging mechanism. In addition, the prices of raw materials, especially molybdenum, have been very volatile in the past. SRC's operating profit margins, thus, remain susceptible to such price variations, which might not be fully passed on to the customers due to competitive pricing pressures. The company is, however, protected to an extent as the pricing is formula-linked and based on the London Metal Exchange price movement.

Liquidity position: Adequate

The liquidity position is adequate, considering the free cash balance of Rs. 20.98 crore as on March 31, 2023 and more than Rs. 10 crore as of December 2023. The utilisation of the fund-based limits has remained nil in the last six months, translating into comfortable cushion in the working capital limits. Also, the company has no repayment obligation in the future.

Rating sensitivities

Positive factors – ICRA could upgrade SRC's ratings if it demonstrates a consistent growth in its revenues and profitability, leading to strengthening of the net worth and sustenance of liquidity position.

Negative factors – The ratings can be downgraded if there is a sustained pressure on profitability or working capital cycle, materially impacting its liquidity position and overall credit profile. Further, the rating revision can be triggered by the interest coverage remaining below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SRC was established in Pune (Maharashtra) as a proprietary concern in 1998 and was later converted to a private limited company in 2002. It is part of the Rajasthan-based SR Group with interests in limestone mining, manufacturing lime, dolomite and ferro alloys along with trading interests in sponge iron, coal and fluorspar. SRC is engaged in manufacturing calcined lime (quick lime), ferromolybdenum, ferrochrome and ferro manganese. The company has a limestone processing capacity of 120,000 TPA at Hospet (Karnataka). It also has ferroalloy and flurospar plants with production capacities of 12,000 TPA in Pune and 42,000 TPA in Visakhapatnam (Andhra Pradesh).

Key financial indicators (audited)

	FY2022	FY2023
Operating income	322.97	428.05
PAT	13.09	19.22
OPBDIT/OI	6.28%	5.40%
PAT/OI	4.05%	4.49%
Total outside liabilities/Tangible net worth (times)	0.58	0.22
Total debt/OPBDIT (times)	0.89	0.46
Interest coverage (times)	12.80	13.24

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

ICRA

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. Crore)	Amount outstanding as on Oct 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					06-Feb-24	30-Jan-23	16-Nov-21	15-Oct-20
1	**Fund-based – CC**	Long-term	10.50	--	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Positive)**	**[ICRA]BBB- (Stable)**
2	**Fund-based**	Short-term	14.00	--	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**
3	**Non-fund based**	Short-term	28.95	--	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**
4	**Interchangeable**	Short-term	(28.95)	--	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**
5	**Fund-based – Term loan**	Long-term	2.47	0.0	**[ICRA]BBB(Stable)**	**[ICRA]BBB(Stable)**	**[ICRA]BBB-(Positive)**	-
6	**Unallocated limits - Fund based/Non-fund based**	Long-Term/Short-term	39.08	--	**[ICRA]BBB(Stable)/[ICRA]A3+**	**[ICRA]BBB(Stable)/[ICRA]A3+**	**[ICRA]BBB-(Positive)/[ICRA]A3**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – CC	Simple
Fund-based – Short term	Simple
Non-fund based	Very Simple
Interchangeable	Very Simple
Fund-based – Term loan	Simple
Unallocated limits - Fund based/Non-fund based	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long-term fund-based – Cash credit**	NA	NA	NA	10.50	[ICRA]BBB (Stable)
NA	**Short-term fund-based**	NA	NA	NA	14.00	[ICRA]A3+
NA	**Shor-term non-fund based**	NA	NA	NA	28.95	[ICRA]A3+
NA	**Short-term fund-based – Interchangeable***	NA	NA	NA	(28.95)	[ICRA]A3+
NA	**Term loan**	FY2019	9.25%	FY2023	2.47	[ICRA]BBB (Stable)
NA	**Unallocated limits – Fund based/Non-fund based**	NA	NA	NA	39.08	[ICRA]BBB (Stable)/[ICRA]A3+

*Source: SRC Chemicals Private Limited, *Interchangeable with short term fund-based limits; Amount in Rs. crore*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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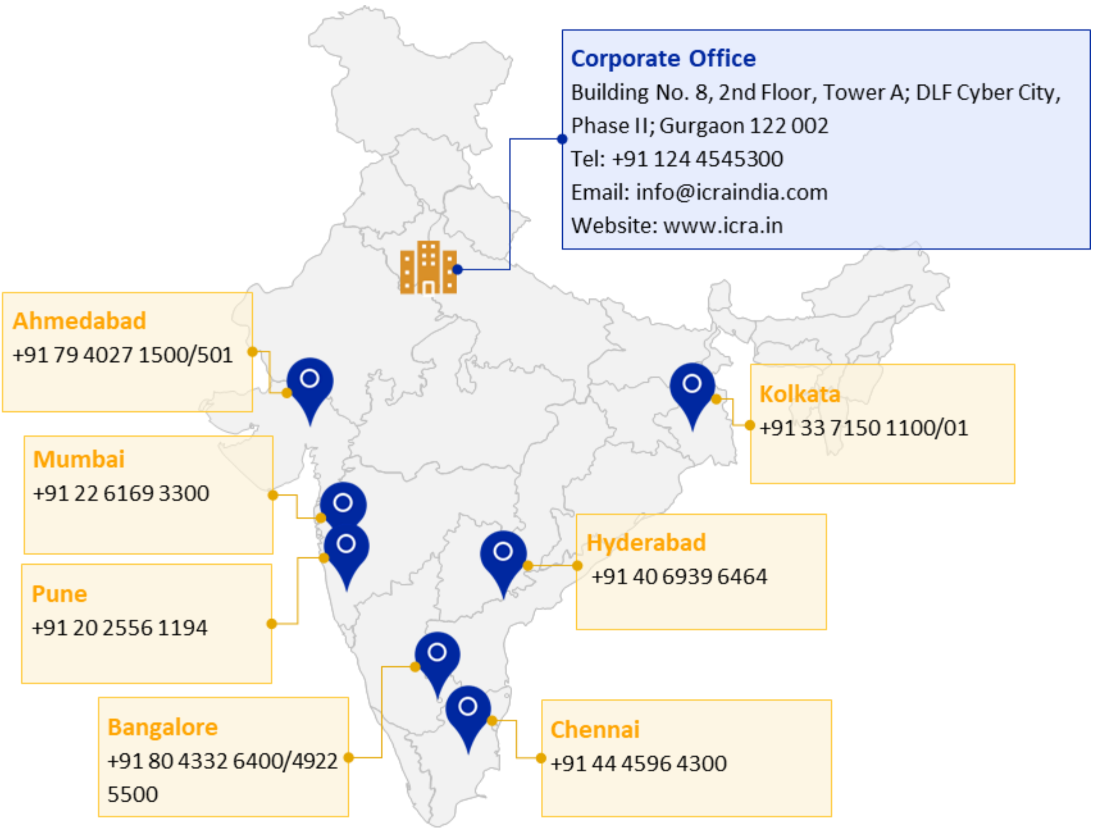

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