May 24, 2024

# Surya Alloy Industries Limited: Long-term rating upgraded to [ICRA]B(Stable) and short-term rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based – Cash Credit** | 91.50 | 91.50 | [ICRA]B(Stable); upgraded from [ICRA]B-(Stable) |
| **Long-term – Fund-based – Term Loan** | 28.28 | 13.89 | [ICRA]B(Stable); upgraded from [ICRA]B-(Stable) |
| **Short-term – Non-fund based – Others** | 50.77 | 50.77 | [ICRA]A4; reaffirmed |
| **Total** | **170.55** | **156.16** | |

**Instrument details are provided in Annexure-I*

## Rationale

The upward revision in the long-term rating of Surya Alloy Industries Limited (SAL/the company) factors in the company's better-than-expected financial performance in FY2023, which is likely to be sustained in FY2024 and FY2025, characterised by healthy revenue growth and improvement in the operating profitability. SAL's revenues grew by ~14% in FY2023, which are likely to remain steady in FY2024 owing to an increase in volumes, while realisations have slightly moderated. However, with an increase in sales realisations, the company's revenue and profitability are likely to register an improvement going forward. After incurring operating losses in FY2022, operating margins improved to ~2.4% in FY2023 and ~2.8% in H1 FY2024. The ratings continue to favourably factor in the extensive experience of the promoters spanning over 25 years in the railway track material industry, and the established position of SAL in this segment. Further, the company derives benefits from the diversified revenue base with its presence in the manufacturing of railway track materials, ferro alloys and rolling mill operations used for the manufacturing of fish plate bars, rounds and metal liner bars.

However, the ratings are constrained by the company's leveraged financial risk profile and weak debt coverage metrics, although some improvement is expected in the near term. The company's net worth position had remained negative until FY2023 due to losses incurred in the past. Nonetheless, pursuant to an order by the Income Tax Department, the company is expected to recognise additional income to the tune of ~Rs. 150 crore in FY2024, which will result in significant improvement in the net worth position, thus, supporting the capital structure.

Despite an improvement, the capital structure is expected to remain leveraged, along with subdued debt coverage indicators due to the high debt levels. That said, ICRA notes that a large part of the increase in SAL's debt levels was contributed by a sizeable infusion of unsecured loans from promoters with flexible repayment terms. The promoter loans increased to ~Rs. 325 crore in FY2023 from ~Rs. 39 crore in FY2017, which helped support high scheduled debt repayment obligations. Going forward, the company's ability to improve its operating margins and liquidity position would be a key rating sensitivity. The ratings are also tempered by SAL's exposure to volatility in raw material prices, resulting in fluctuations in profitability indicators, although partly mitigated by the presence of a price variation clause in some of the contracts for the railway materials business. Also, the ferro alloys manufacturing business remains non-integrated in nature, marked by the absence of a captive power plant, exposing the company's earnings to volatility in case of adverse movement in power tariffs. ICRA notes that the company has large contingent liabilities, which if materialised into the initial claims, would be a major credit negative.

The Stable outlook on the rating reflects ICRA's expectation that the company will be able to maintain its credit profile over the medium term, supported by favourable sales realisations and improved operating margins, even though with some volatility. Further, the outlook underlines ICRA's expectations that the company's working capital and long-term fund requirements would be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating.

# Key rating drivers and their description

## Credit strengths

**Extensive experience of promoters in the industry; diversified revenue base**: The promoters have extensive experience in the railway track materials industry spanning over 25 years, resulting in an established position of the company in the industry. The promoter's established experience has helped the company acquire new customers and grow the business. SAL manufactures various railway track materials, including spheroidal graphite cast iron inserts, elastic railway clips, grooved rubber sole pads, metal liners and fish plates. Moreover, it has a ferro alloy manufacturing unit, constituting around 60% of its total sales in FY2024. SAL also undertakes conversion activities for Steel Authority of India Ltd. (SAIL) on a job-work basis. These diversified revenue sources mitigate the product concentration risks to an extent.

**Integrated nature of operations for the railway business:** SAL's railway business has backward integration into its own billet manufacturing and rolling mill facilities. This, along with an increase in the realisation has supported the company's operating margins in FY2023 and FY2024. After incurring operating losses in FY2022, the company has turned profitable in FY2023 with operating margins of ~2.4%, which improved to ~2.8% in H1 FY2024. Going forward, operating profits are likely to continue at ~2.5-3% margins.

## Credit challenges

**Profitability is vulnerable to adverse fluctuations in raw material prices:** The main raw materials used by the company are scrap, manganese ore, chrome ore, coal and coke, prices of which have exhibited significant volatility in the past and continue to expose the company's cash flows and profitability to adverse price movements. However, the presence of price variation clauses in some contracts for the railway materials business partly mitigates such risks. Also, the ferro alloys manufacturing business remains non-integrated in nature, marked by the absence of a captive power plant, exposing the company's earnings to volatility in case of adverse movements in power tariffs.

**Financial profile characterised by leveraged capital structure and weak debt coverage indicators:** The company's capital structure is leveraged, leading to poor debt coverage indicators. While the revenues and operating profit margins have improved in FY2023 and is estimated to remain steady in FY2024, the credit indicators are likely to remain depressed, given the high debt levels and relatively higher debt repayment obligations compared to its cash accruals. The net worth of the company had fully eroded due to continuous losses incurred over the years, leading to a negative net worth until FY2023. However, with the recognition of additional business income in FY2024, the net worth is expected to significantly improve. Nonetheless, the capital structure and debt coverage indicators are likely to remain subdued in the near term.

**Large contingent liability relative to balance sheet size:** The company has a high contingent liability relative to the size of its balance sheet, any potential devolvement of the same remains a risk. ICRA also notes that the same is under discussion and is expected to reduce substantially in the near term, which will be a credit positive.

# Liquidity position: Stretched

The company's liquidity position is stretched as its free cash flows are not commensurate with its relatively higher scheduled debt repayment obligations in the near term. That said, sizeable fund infusions from promoters have supported timely servicing of debt obligations. Going forward, the company's ability to improve its operating margin would be important from the liquidity perspective.

# Rating sensitivities

**Positive factors** – The ratings may be upgraded if SAL is able to improve its profit margins, resulting in an improvement in the debt coverage indicators and liquidity position on a sustained basis.

**Negative factors** – The ratings may be downgraded if there is a sustained period of subdued earnings, adversely impacting the debt coverage metrics and liquidity profile.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | [Corporate Credit Rating Methodology](#)<br>[Iron & Steel](#) |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the standalone financials of SAL |

## About the company

Incorporated in 1990, Surya Alloy Industries Limited (SAL) was promoted by Mr. Ashish Rungta and Late Motilal Rungta. The company has been mainly supplying railway track materials to the Indian Railways for the last 25 years. It manufactures and supplies railway track materials, including spheroidal graphite cast iron inserts, elastic railway clips, grooved rubber pads, metal liners and fish plates. Over the years, SAL has expanded its product portfolio to include ingots and billets and rolled products such as angles, joints, flats etc. It has also set up a ferro alloys division. SAL, through one of its units, also carries out conversion activities for SAIL. Its manufacturing units are approved by the Research Design and Standards Organisation of the Indian Railways.

### Key financial indicators (audited)

| SAL | FY2022 | FY2023 | H1 FY2024* |
|---|---|---|---|
| **Operating income** | 1082.5 | 1233.3 | 633.8 |
| **PAT** | 4.1 | -5.8 | 1.9 |
| **OPBDIT/OI** | -0.6% | 2.4% | 2.8% |
| **PAT/OI** | 0.4% | -0.5% | 0.3% |
| **Total outside liabilities/Tangible net worth (times)** | -12.8 | -12.2 | -12.2 |
| **Total debt/OPBDIT (times)** | -55.6 | 13.8 | 11.7 |
| **Interest coverage (times)** | -0.3 | 1.0 | 1.3 |

*Source: Company, ICRA Research; * Provisional numbers; 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

## Rating history for past three years

| | Instrument | Current rating (FY2025) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on Mar 31, 2024 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | May 24, 2024 | - | Mar 27, 2023 | Dec 20, 2021 |
| 1 | Cash Credit | Long term | 91.50 | 40.0 | **[ICRA]B (Stable)** | - | [ICRA]B- (Stable) | [ICRA]B (Stable) |
| 2 | Term Loan | Long term | 13.89 | 13.89 | **[ICRA]B (Stable)** | - | [ICRA]B- (Stable) | [ICRA]B (Stable) |
| 3 | Non-fund based – Others | Short term | 50.77 | 36.35 | **[ICRA]A4** | - | [ICRA]A4 | [ICRA]A4 |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term – Fund-based – Cash credit** | Simple |
| **Long-term – Fund-based – Term loan** | Simple |

| | |
| --- | --- |
| **Short-term – Non-fund based – Others** | Very simple |

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 | - | 11.75%-14.60% | - | 91.50 | [ICRA]B (Stable) |
| NA | Long-term – Fund-based – Term Loan | FY2021 | 9.25% | FY2026 | 13.89 | [ICRA]B (Stable) |
| NA | Short-term – Non-fund based – Others | - | - | - | 50.77 | [ICRA]A4 |

*Source: Company*

*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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

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