

July 16, 2024

SRJ Peety Steels Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based Term Loans	30.20	-	-
Long-term - Fund-based Cash Credit	172.00	281.75	[ICRA]BBB+(Stable); Reaffirmed and assigned for enhanced amount
Short-term - Non-fund Based Bank Guarantee	38.25	38.25	[ICRA]A2; reaffirmed
Long-term/short-term – Unallocated	13.55	-	-
Total	254.00	320.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has consolidated the financials of SRJ Peety Steels Private Limited (SRJ) and SRJ Strips and Pipes Private Limited (SRJ Pipes) as the former has provided a corporate guarantee of Rs. 175 crore to SRJ Pipes for its capex plans. SRJ Pipes is a new entity and a greenfield project, and thus it will need support from the stronger operational entity.

The rating reaffirmation factors in the execution risks associated with the greenfield project. However, ICRA takes comfort from the extensive experience of SRJ's promoters in the steel industry, the company's established relationships with customers and suppliers and a diversified customer base.

The ratings favourably consider the operational efficiencies arising from SRJ's backward-integrated billet plant and its healthy capacity utilisation rates. The demand conditions from the end-user industries remain favourable over the near-to-medium term, which is likely to support the sales volumes and profits in FY2025. ICRA expects SRJ's financial profile to remain adequate, aided by healthy cash flows from SRJ and limited capex plans. The liquidity position continues to remain adequate, underpinned by a sizeable cushion in the form of unutilised working capital limits with commensurate drawing power. ICRA expects SRJ's top line to remain healthy in FY2024-FY2025 with enhanced plant capacity and utilisation. The same will lead to higher volume growth amid favourable operating environment in the ferrous metals industry, driven by the Government's thrust on infrastructure projects, and higher demand from the end users such as real estate and construction and the wind mill industries.

The ratings are constrained by moderation in SRJ's financial profile, marked by the debt funded capex at SRJ Pipes, which resulted in Total debt / OPBITDA increasing to 2.9 in FY2024 (compared to 2.1 in FY2023), although ICRA expects a marginal improvement in FY2025 with revenues from SRJ Pipes coming in. In addition, SRJ is a new entity and there exists execution risk in maintaining sustained operations at adequate capacity utilisation, as well as tying up with a new client base. However, ICRA takes comfort from the Group's experience in running TMT bars manufacturing business for over 30 years, and the existing customer base of SRJ. ICRA also notes the income tax raid at SRJ in August 2022, however, the company has recognised the additional income in its audited accounts for FY2023, and the cash of Rs. 27.82 crore seized would be set off against the income tax liability. However, any additional interest or penalty by the income tax authorities would remain key points to monitor.

The ratings are also constrained by the highly commoditised and fragmented nature of the secondary steel industry, resulting in intense competition, limiting the company's pricing flexibility. The company's margins remain susceptible to volatility in raw material prices. Additionally, the company remains exposed to the inherent cyclicity in the steel industry, which keeps its

profits and cash flows volatile. The company's ability to ramp up the operations of the expanded capacity remains important, though ICRA draws comfort from the company's track record of achieving healthy capacity utilisation level.

The Stable outlook on [ICRA]BBB+ rating reflects ICRA's opinion that the company will continue to benefit from favourable demand conditions in the domestic market, its established customer base and experience of the Group in managing steel business for over three decades.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in steel industry; diversified customer base – SRJ is promoted by the Peety family members, who have over 30 years of experience in the steel industry. The extensive experience of the promoters has helped the company establish strong relationships with its customers and suppliers and scale up its operations. The company's customer base is diversified, comprising a mix of reputed institutional customers, real estate entities and traders among others. SRJ's top-10 customers account for 20-40% of the total sales every year.

Partly integrated operations, healthy capacity utilisation rates at SRJ – The company has a partially integrated facility with the presence of induction furnaces and continuous caster to produce billets using sponge iron, pig iron, scrap etc. These are captively consumed for production of TMT bars. The facility uses a hot charging technology, which transfers billets directly from the caster to the rolling mill, leading to savings in energy costs. Besides supporting the operating profitability, the backward integration ensures smooth raw material availability. The capacity utilisation at SRJ for billet and TMT division has remained healthy at over 90% over the last two years. As SRJ's manufacturing facility is located in the D+ zone in Jalna, Maharashtra, it is eligible to receive capital subsidy under the package scheme of incentives announced by the Government of Maharashtra. As per management, the company is eligible to receive a total capital subsidy of Rs. 500 crore, of which Rs. 220 crore has been received till date.

Adequate financial profile – The company's financial profile had moderated on a consolidated basis in FY2024 due to the debt funded capex at SRJ Pipes. However, ICRA notes that the financial profile of the principal operating entity, SRJ, remains comfortable, marked by a healthy capacity utilisation level, leading to a 12% growth in revenue to Rs. 2,267.4 crore in FY2024 (Rs. 2,021.7 crore in FY2023), low gearing and healthy coverage indicators. In FY2024, the Group reported an OPM of 6.3% (4.7% in FY2023), given the favourable demand conditions. The overall volume has increased due to capacity enhancement, but the realisation has moderated due to lower steel prices. On a consolidated basis, SRJ is likely to sustain its high revenue base and report a revenue growth of 10-12% in FY2025 on the back of ramp-up of operations at SRJ Pipes, and an expected marginal increase in sales realisations. The demand conditions from the end-user industries remain favourable over the near-to-medium term, which are likely to support sales volumes and profits in FY2025. ICRA expects SRJ's financial profile to improve marginally in FY2025, aided by ramp-up in volumes at SRJ Pipes and limited capex plans.

Credit challenges

Exposure to execution risk by the new entity – SRJ Pipes, a sister concern of SRJ, has started manufacturing of steel pipes and TMT bars at its newly built facility. There is an execution risk in maintaining sustained operations at adequate capacity utilisation, as well as tying up with a new client base. However, ICRA takes comfort from the Group's experience in running the TMT bars manufacturing business for over 30 years, and the existing customer base of SRJ.

Regular debt-funded capex resulted in relatively lower coverage ratios – Over the past five to six years, the company has been incurring debt-funded capex towards capacity expansion. The Group had incurred a debt funded capex of approximately Rs. 200 crore at SRJ Pipes, funded through term loan and unsecured loan from promoters, which resulted in Total debt / OPBITDA increasing to 2.9 in FY2024 (from 2.1 in FY2023), although ICRA expects a marginal improvement in FY2025 with revenues from SRJ Pipes coming in. The ability of the company to ramp up operations of its expanded capacity would be an

important credit rating factor. Nevertheless, ICRA draws comfort from SRJ's track record of achieving healthy capacity utilisation level.

Highly commoditised and fragmented nature of secondary steel industry; margins susceptible to volatility in raw material prices – The company operates in a highly commoditised industry with raw material and power cost accounting for 80-90% of the revenues. The secondary steel industry is intensely competitive owing to low product differentiation and low entry barriers. Intense competition in the industry limits pricing flexibility, which restricts scope for an improvement in profitability. The company's profit margins also remain susceptible to volatility in major raw material prices such as sponge iron and scrap. ICRA, however, notes that the company has largely been able to pass on the increase in raw material prices to its customers.

Exposure to cyclicality inherent in steel industry – The company's operations are vulnerable to any adverse change in the demand-supply dynamics in the end-user industries such as infrastructure, real estate, among others. The cyclicality inherent in these sectors is likely to keep the company's profits and cash flows volatile.

Liquidity position: Adequate

SRJ's liquidity position is adequate, supported by average undrawn working capital limits (with commensurate drawing power) of Rs. 130.2 crore during the last 12-month period ended in March 2024. The company's average working capital limit utilisation during the 12-month period ended in March 2024 stood at 44%. ICRA notes that the Group has to make a total repayment of Rs. 33.74 crore in FY2025, against which it is estimated to generate net cash accruals of Rs. 115 crore to Rs. 130 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a consistent growth in revenues and an improvement in profitability on a sustained basis. In addition, a sustained improvement in coverage metrics and liquidity parameters needs to be demonstrated.

Negative factors – Pressure on the ratings or outlook could arise if there is a deterioration in the company's earnings or if any large debt funded capex/investment adversely impacts the company's debt protection metrics and/or the liquidity position. Any large advance/letter of comfort/corporate guarantee extended to related parties, adversely impacting the company's financial profile or liquidity position, could be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of SRJ Peety Steels Private Limited and its sister concern, SRJ Strips and Pipes Private Limited. SRJ has provided a corporate guarantee to SRJ Pipes.

About the company

Incorporated in 1985, SRJ Peety Steels Private Limited (SRJ) manufactures billets and thermo mechanically treated (TMT) bars. Initially, the company was formed for manufacturing MS ingots. In 1994, the company started manufacturing MS bars and in 2007, it started manufacturing MS billets. In 2012, the company adopted hot rolling method for manufacturing MS bars. The company had a manufacturing capacity of approximately 60,000 MTPA in FY2010, which has increased to 4,70,000 MTPA in

FY2024. At present, SRJ has a billet manufacturing unit and a rolling mill unit, each with installed capacities of 4,80,000 metric tonnes per annum (MTPA). The billets manufactured are consumed in-house for manufacturing TMT bars. The company's manufacturing facilities are in Jalna, Maharashtra. The company's products are ISO certified. It sells TMT bars under the brand name of Shree Om. SRJ Strips and Pipes Private Limited, a sister concern, was incorporated in FY2021. Its operations have begun in FY2024 and it manufactures TMT bars and steel pipes. It sells products under the brand name of Kapila.

Key financial indicators

Consolidated	FY2023	FY2024*
Operating income	2,021.7	2,267.5
PAT	146.4	92.5
OPBDIT/OI	4.7%	6.3%
PAT/OI	7.2%	4.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.8
Total debt/OPBDIT (times)	2.1	2.9
Interest coverage (times)	5.9	9.8

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

Note: Operating income and EBITDA in FY2023 is excluding the reassessed income.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 16, 2024	Apr 03, 2023	-	Mar 16, 2022
1 Fund-based Term Loan	Long term	-	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2 Fund-based Cash Credit	Long term	281.75	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
3 Non-fund Based Bank Guarantee	short term	38.25	[ICRA]A2	[ICRA]A2	-	[ICRA]A2
4 Unallocated Limits	Long term and short term	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based Cash Credit	Simple
Short-term - Non-fund Based Bank Guarantee	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	Cash Credit	NA	NA	NA	281.75	[ICRA]BBB+(Stable)
NA	Bank Guarantee	NA	NA	NA	38.25	[ICRA]A2

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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