

November 29, 2024

## SAARLOHA Advanced Materials Private Limited; outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based/Non-fund based	552.50	552.50	[ICRA]A+/[ICRA]A1+ reaffirmed; outlook revised to Positive from Stable
<b>Total</b>	<b>552.50</b>	<b>552.50</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the outlook to Positive reflects SAARLOHA Advanced Materials Private Limited's (SAARLOHA) record-high operating profits since FY2023, surpassing the previous peak of FY2018, supported by its strategic focus on high-value-added products and cost efficiency, including power cost savings. The company has continued its strong performance in H1 FY2025 as well. Looking ahead, the company is expected to maintain a top line in the range of Rs. 1,900–2,200 crore annually, along with healthy earnings and positive cash flow from operations.

This solid performance has been bolstered by its business linkages with Bharat Forge Limited BFL, (the Kalyani Group's flagship entity, rated [ICRA]AA+(Stable)/[ICRA]A1+) as SAARLOHA meets around 50% of BFL's steel requirements. ICRA notes that SAARLOHA has a quarterly price arrangement with BFL, which is designed in a way to absorb a bulk of the input cost volatility, thereby providing SAARLOHA with a relatively stable stream of earnings.

The rating also benefits from SAARLOHA's robust financial profile and strong liquidity position, underpinned by low gearing and significant unencumbered fixed deposits. ICRA notes the operational flexibility derived from the company's ability to use various raw material types, enabling consistent product quality while maintaining attractive profitability across business cycles. Additional credit strengths include the proximity of SAARLOHA's manufacturing facilities to raw material sources, international seaports and key customers, and the company's diversified product profile and the favourable long-term growth prospects, driven by Bharat Forge's focus on the non-automotive sectors. Further, the recently acquired captive solar assets and the growing focus on value-added products are expected to sustain a higher level of profitability over the long-term historical average levels despite volatile raw material cost.

However, the ratings are constrained by SAARLOHA's continued large non-core investments and deposits in Group companies (estimated at 44% of the tangible net worth as on March 31, 2024), which weigh on its overall business return indicators as such investments do not generate commensurate returns. A timely monetisation of these investments will remain a critical credit monitorable.

The ratings are also tempered by the company's high dependence on the cyclical automotive sector and the customer concentration to Bharat Forge, which contribute significantly to its revenues. Additional risks that the rating incorporates include the susceptibility of profitability to raw material price fluctuations, unhedged forex exposure on imports and high single-asset concentration risk, as any disruption at its Pune manufacturing unit could adversely impact the cash flows.

### Key rating drivers and their description

#### Credit strengths

**Strong earnings growth in recent past; earnings outlook remains favourable in current fiscal** - SAARLOHA has delivered strong earnings growth in the recent past, achieving record-high operating profits since FY2023, surpassing the previous peak of

FY2018. This robust performance has been driven by the company's strategic focus on high value-added products and the cost-efficiency measures, including savings in power costs. The momentum continued in H1 FY2025, with the company delivering strong results. Looking ahead, SAARLOHA is expected to maintain an annual top line in the range of Rs. 1,900–2,200 crore, supported by healthy earnings and a positive cash flow from operations.

**One of the key steel suppliers to BFL ensures assured business and steady earnings stream** – SAARLOHA was incorporated to meet the steel requirements of BFL. The company supplies forging and engineering quality steel for BFL's domestic and export automotive and non-automotive components. BFL is a major customer for the company, contributing ~70% to the total revenues each fiscal. There exists a strong symbiotic relationship between SAARLOHA and BFL, with the latter procuring over 50% of its steel requirements from SAARLOHA. The proximity of both the plants ensures hot charging of material from SAARLOHA to BFL, thereby saving reheating costs for BFL. ICRA notes that SAARLOHA has a quarterly price arrangement with BFL, which is designed to absorb the bulk of the input cost volatility, thus providing SAARLOHA with a relatively stable earnings stream. This arrangement, coupled with BFL's increasing focus on its non-automotive business, enhances the long-term growth prospects for SAARLOHA.

**Diversified product portfolio vis-à-vis competitors** – SAARLOHA produces and markets a wide range of speciality steel, such as carbon and alloy steel for forging and engineering applications, automotive steel, bearing steel and electro slag re-melted (ESR) steel. The company has set up two re-melting furnaces for manufacturing ESR and vacuum arc remelted (VAR) steel. ESR and VAR are high value-added steel, which involve advanced methods of re-melting and refining, and find applications in critical mission fields like defence and aerospace, among others, which should further aid in product diversification and support the operating profitability.

**Proximity to raw material sources and key customers, and captive power sourcing enhances cost competitiveness** – SAARLOHA's manufacturing facility is located near the raw material sources/international seaport and key customers, which gives it competitive cost advantage in transportation and logistics. Also, the company's 74-MW captive solar power plant has led to power cost savings of Rs. 35-40 crore per annum FY2024 onwards.

**Comfortable capital structure and coverage indicators** – SAARLOHA's total debt of Rs. 185 crore as on March 31, 2024, comprised primarily working capital borrowings. Given the limited dependence on debt and no major capital expenditure (capex) incurred over the last few years, the capital structure remained comfortable, reflected in its low gearing of 0.2 times as on March 31, 2024 (previous year [P.Y.] – 0.3 times). SAARLOHA reported all-time high operating profits of Rs. 267 crore in FY2024 (FY2023 – Rs. 205.4 crore), given the healthy demand of value-added products with higher sales realisations and savings in power cost. With no major capex incurred, the coverage metrics remained healthy with an interest cover of 13.4 times (P.Y. 8.6 times) and debt-to-operating profit of 0.7 times (P.Y. 1.2 times) in FY2024. Going forward, despite the sizeable capex plan of ~Rs. 150 crore to upgrade the caster in FY2025, the overall financial profile is likely to remain comfortable, supported by continued strong demand from the end-user industries and expectation of improvement in profitability led by the focus on value-added products.

## Credit challenges

**Continued large non-core investments/deposits in Group companies** – As on March 31, 2024, 44% of SAARLOHA's net worth was deployed towards non-core investments/deposits in Group companies. While the share (as a percentage of net worth) has declined from a peak of 101% in FY2017 due to improved net worth (on account of healthy accretion to reserves), the absolute investments/deposits continue to steadily increase in recent years. ICRA notes that the company has repaid Rs. 135-crore advance to BFL in FY2024 (the said advance was extended by BFL to SAARLOHA in the past to part-fund the investment in Group companies). ICRA understands that these investments are strategic in nature and are not expected to generate any returns over the medium term, which has a negative bearing on the capital return indicators. In case of any significant diminution in the value of the investment portfolio, the credit profile of SAARLOHA could weaken.

**Vulnerable to high customer concentration and cyclicity in automobile sector** – SAARLOHA primarily caters to the automobile sector, which has a high degree of cyclicity. Moreover, the dependence on BFL exposes the company to high

client concentration risk. BFL accounts for 65%-75% of SAARLOHA's total sales each fiscal. The share is likely to remain at a similar level, going forward. Nevertheless, SAARLOHA's strong wallet share in BFL's raw material requirement and the dominant market position of BFL in the Indian forging industry partially mitigate the impact of high client concentration.

**Exposure to raw material price fluctuations and foreign exchange risks; favourable pricing arrangement with BFL acts as a mitigant** - SAARLOHA follows a cost-plus based pricing mechanism with its customers, which allows the passing of higher raw material costs, but there is a lag of two to three months as the selling prices are fixed quarterly. As a result, in the interim, the profitability is exposed to raw material price volatility. Nevertheless, the company is focusing on increasing the share of value-added products in its portfolio, which will expand the margin over the medium term. The company generally does not hedge its forex exposure, and hence, its profitability is exposed to foreign exchange risk volatility.

### Liquidity position: Strong

SAARLOHA's liquidity position is strong, supported by healthy cash flow from operations, unutilised working capital limits (with sufficient drawing power) and large liquid investments. As on September 30, 2024, the company had unencumbered fixed deposits of ~Rs. 230 crore. The company's average utilisation of fund-based limits stood at ~40% during the 12 months ended September 2024, providing an additional liquidity cushion. The company prefers buyers credit facility over cash credit/working capital demand loan limits on account of relatively lower interest costs. While there are no term loan repayment obligations, the company has capex plans of Rs. 150 crore, to be incurred in FY2025 to set up a new caster. This capex is expected to be funded from liquid balances and internal accruals. Going forward, SAARLOHA's cash flow from operations is likely to remain healthy in the range of Rs. 95-150 crore, given the improvement in profitability on account of a richer product mix and the sizeable savings in power costs following the operationalisation of the group captive solar power plant.

### Rating sensitivities

**Positive factors** – A rating upgrade could be triggered if the company is able to steadily grow the business while maintaining healthy earnings, low leverage, and a strong liquidity profile, going forward.

**Negative factors** – The outlook may be revised to Stable if the company's earnings momentum deteriorates significantly, going forward, due to a sustained slowdown in the key end-user industry, thereby exerting pressure on the profitability and coverage indicators. The ratings may witness a downward pressure due to a deterioration in the leverage indicators, with the total debt vis-à-vis the operating profit (Total debt/OPBIDTA) remaining above 2 times on a sustained basis. Moreover, any large debt-funded capacity expansion affecting SAARLOHA's capital structure, or any significant increase in investments/deposits in Group companies which exert pressure on the liquidity and credit metrics would be the negative triggers.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Iron &amp; Steel</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

SAARLOHA (formerly known as Kalyani Carpenter Special Steels Private Limited), incorporated in 1999, began as a 74:26 joint venture between the Kalyani Group and Carpenter Technology Corporation, USA. The company was set up to supply specialty steel to Bharat Forge Limited in technical collaboration with its foreign shareholder. The company's manufacturing facilities operated as units of Kalyani Steel Limited till 1999, when the units were de-merged and incorporated into a separate company. In FY2016, the Kalyani Group acquired the entire stake held by the Carpenter Group. The company was renamed SAARLOHA Advanced Materials Private Limited with effect from March 13, 2018.

SAARLOHA manufactures and supplies specialised steel for the auto, mining, bearings, defence, and engineering sectors. It has a wide product portfolio, which includes forging quality and engineering quality steel, carbon, and alloy steel, ESR steel, tool and die, valve, gearing and stainless steel. SAARLOHA has two plants - one each at Mundhwa (Pune, Maharashtra) and Ranjangaon (Maharashtra). While the Pune facility is a steel producing unit with an installed production capacity of 2,04,000 MTPA, the Ranjangaon facility houses the finishing facility with a manufacturing capacity of 5,000 MTPA. Also, the company had set up a 74-MW solar power plant under the group captive model in FY2023.

## Key financial indicators (audited)

Standalone Financials	FY2023	FY2024	H1 FY2025*
Operating income	1,943.1	1,924.8	971.6
PAT	121.7	182.1	97.9
OPBDIT/OI	10.6%	13.8%	14.5%
PAT/OI	6.3%	9.5%	10.1%
Total outside liabilities/Tangible net worth (times)	0.8	0.5	-
Total debt/OPBDIT (times)	1.2	0.7	-
Interest coverage (times)	8.6	13.4	-

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 (FY2025)			Chronology of rating history for the past 3 years						
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	-	29-Nov-2024	-	29-Aug-2023	-	12-May-2022	[ICRA]A+ (Stable)	-	-
Fund-based/Non-fund-based limits	Short term	552.50	29-Nov-2024	[ICRA]A+ (Positive) / [ICRA]A1+	29-Aug-2023	[ICRA]A+ (Stable) / [ICRA]A1+	12-May-2022	[ICRA]A+ (Stable) / [ICRA]A1+	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based/Non-fund based limits	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	Fund based/Non-fund based facilities	-	-	-	552.50	[ICRA]A+(Positive) /[ICRA]A1+

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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