April 21, 2025

Suraj Products Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term –Fund based- Term Loans	26.00	16.00	[ICRA]BBB (Stable); reaffirmed
Long term – Fund Based-Cash Credit	30.00	35.00	[ICRA]BBB (Stable); reaffirmed
Short term - Non-fund based Facilities	1.50	6.50	[ICRA]A3+; reaffirmed
Total	**57.50**	**57.50**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation considers the comfortable financial risk profile of the company, which has witnessed a steady improvement over the years. The ratings continue to derive comfort from SPL's vertically integrated nature of operations, characterised by the presence of DRI[1] kiln (used to manufacture sponge iron), mini blast furnace (used to manufacture pig iron), induction furnace and continuous caster to produce billets using captive sponge iron and pig iron. The manufactured billets are then subjected to rolling to produce TMT bars of desired profile. The ratings also derive comfort from the presence of the company's captive power plant (CPP), leading to availability of power at a competitive rate that positively impacts its cost structure owing to a highly power intensive nature of operation. In addition, with the new fuel supply agreement (FSA) in place, ~100% of the company's total thermal coal requirements for manufacturing of sponge iron will be met from the linkages obtained through auctions, keeping the landed cost of coal competitive and enhancing raw material security. The smaller kiln size of the company permits using low grade domestic thermal coal having lower calorific value, keeping production costs lower. The ratings also derive strength from the favourable location of SPL's plant in terms of proximity to major raw material sources.

The ratings are, however, constrained by the intensely competitive nature of the secondary steel industry, which leads to pricing pressure, keeping margins under check. The ratings also remain constrained by the exposure of the company to the cyclicality inherent in the steel industry and susceptibility of SPL's profitability to the volatility in raw material prices and end-product realisations, although the vertically integrated nature of operations reduces the vulnerability to an extent. The ratings also factor in SPL's small scale of operations relative to other established players in the secondary steel industry, which constrains its ability to benefit from the economies of scale and limits its pricing flexibility.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit metrics would continue to remain at comfortable levels, going forward, aided by steady accruals and low dependence on debt.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – SPL's financial risk profile remains comfortable and has witnessed a steady improvement over the years. The capital structure, as reflected by the gearing, improved to 0.31 times as on March 31, 2024 from 1.88 times as on March 31, 2020 aided by debt reduction and accretion to reserves. The coverage metrics, as reflected by interest

[1] Direct Reduced Iron

coverage and debt service coverage ratio (DSCR) improved to 14.63 times and 3.27 times, respectively in FY2024 from 2.64 times and 1.41 times, respectively in FY2020 aided by higher operating profits and reduction in debt. The company has a capex plan worth Rs. 15-18 crore over the next year to increase the captive power generation capacity by 5-6 MW. However, SPL is expected to maintain its comfortable financial risk profile, as the capex will be funded from internal accruals.

Vertically integrated nature of operations with capacity to manufacture sponge iron, pig iron, billets and TMT bars – The company has a vertically integrated continuous casting steel manufacturing facility with a capacity of 36,000 MTPA of sponge iron, 24,000 MTPA of pig iron, 72,600 MTPA of billets and 72,600 MTPA of TMT bars. Billets are manufactured using captive sponge iron and pig iron. The manufactured billets are then subjected to rolling to produce TMT bars of desired profile.

Presence of captive power plant, coal linkage and ability to process inferior grade input materials for steel making strengthen the operating profile of the company – The company's steel melting operation is highly power intensive. The company has a captive power plant (CPP) of 9 mega watt (MW), out of which 3 MW is based on waste-heat-recovery (WHR) technology, 3 MW is based on atmospheric fluidised bed combustion (AFBC) process and the balance 3 MW utilises gas from the mini blast furnace (MBF) to produce power. The cost structure of the steel melting operation, which is highly power intensive in nature, is positively impacted by the power available from the CPP at a competitive rate. The input cost for WHR remains very low as it uses waste heat gas obtained from the sponge iron kiln. The input mix for AFBC primarily includes Dolochar (byproduct obtained from sponge iron production) and the turbine utilises process gases from MBF. Power generated through SPL's captive power plant at a competitive rate meets the major part of its overall power requirement, which positively impacts the cost structure. In addition, with the new fuel supply agreement (FSA) in place, ~100% of the company's total thermal coal requirements for manufacturing of sponge iron will be met from the linkages obtained through auctions, keeping the landed cost of coal competitive and enhancing raw material security. The smaller kiln size of the company permits using low grade domestic thermal coal having lower calorific value, keeping production costs lower.

Credit challenges

Competitive nature of the industry likely to keep margins under check – SPL is a secondary steel producer and derives the major portion of its revenue from semi-urban and rural areas. The fragmented nature of the long product/semis industry and intense competition from other organised as well as unorganised players are likely to keep its margins under check.

Exposed to cyclicality inherent in the steel industry – SPL is exposed to cyclicality inherent in the steel industry, which leads to volatility in revenue and cash flows for the industry players, including SPL. The cash flows and profitability of the company would remain volatile largely because of the fluctuation in steel spreads emanating from the mismatch in price movement of raw materials and end products. However, the vertically integrated nature of SPL's operations reduces the earnings volatility to an extent.

Relatively smaller scale of operations – Notwithstanding the increase in scale of operations of SPL in recent years, the same remained small compared to other established players in the secondary steel industry. This constrains its ability to benefit from the economies of scale and limits its pricing flexibility vis-à-vis that of the bigger entities operating in the industry.

Environmental and social risks

Environmental considerations – Steel manufacturing is an energy intensive process and requires substantial use of fossil fuels, which results in greenhouse gas emissions, industrial waste generation, and environmental pollution. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for steel manufacturers in the medium term. This is in turn leads to a greater focus on reducing the carbon footprint through various technological interventions, like increasing share of renewables in the energy mix, increasing the share of steelmaking through the electrical route, transition to green hydrogen technologies, decrease in fuel rate in furnaces, and setting up carbon capture utilisation and storage units, to name a few. With many of these emerging low-carbon technologies yet to achieve commercial viability, this transition could entail a significant investment for metal manufacturers. Further, SPL faces risk of physical climate change from floods and drought in the form of disruption in raw material availability due to extreme weather events and impact on water availability due to drought.

Social considerations – Social risks for steel manufacturers manifest from health and safety of employees involved in the manufacturing activity. Casualties/ accidents at operating units due to gaps in safety practices could not only lead to production outages for steel manufacturers like SPL, but also invite penal actions from regulatory bodies. The sector is exposed to labour related risks and risks of protests/social issues with local communities, which might impact expansion/modernisation plans. Also, the adverse impact of environmental pollution in nearby localities could trigger local criticism.

Liquidity position: Adequate

SPL's liquidity position is adequate with free cash/bank balances of around Rs. 20 crore and undrawn working capital lines of around Rs.25 crore as on March 31, 2025 and healthy retained cash flow of ~Rs. 30 crore expected in the current fiscal. Against these sources of cash, the company has a total capex commitment of around Rs.15-18 crore and debt repayments obligations of around Rs.7 crore in FY2026. Overall, ICRA expects SPL to be able to comfortably meet its capex commitments and service its debt obligations through internal sources of cash.

Rating sensitivities

Positive factors – ICRA may upgrade SPL's ratings if the company is able to increase its earnings and networth while maintaining healthy business returns and credit metrics.

Negative factors – Pressure on SPL's ratings may arise in case of weaker-than-expected financial performance due to adverse demand scenario. A specific trigger for downgrade would be DSCR lower than 1.8 times on a sustained basis. Additionally, any major debt-funded capex, leading to weakening of capital structure would put pressure on SPL's ratings.

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 considered the standalone financials of SPL.

About the company

Established in 1991, Champion Cement Industries Limited was involved in production of cement. The company's name was changed to Suraj Products Limited in 2000. Since 2002, the company discontinued the cement manufacturing plant and diversified into manufacturing of sponge iron and pig iron. The manufacturing facility is located in Sundargarh district, Odisha. The company commissioned its captive power plant (CPP) of 3 MW (waste heat recovery) and an induction furnace of 25,000 MT in 2017. In FY2019, SPL installed its second CPP of 3 MW (AFBC based) and doubled the steel melting capacity. The company has also installed a continuous casting machine for production of billets instead of ingots. At present, the company has an installed capacity to produce 36,000 MTPA of sponge iron, 24,000 MTPA of pig iron, 72,600 MTPA of billets, 72,600 MTPA of TMT bars and 9 MW of captive power generation capacity.

Key financial indicators (audited)

SPL	FY2023	FY2024	9M FY2025*
Operating income	285.0	344.7	235.5
PAT	26.0	28.9	17.2
OPBDIT/OI	17.0%	14.8%	12.2%
PAT/OI	9.1%	8.4%	7.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.4	-
Total debt/OPBDIT (times)	1.1	0.8	-
Interest coverage (times)	12.0	14.6	16.1

*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:

CRA	Status	Date of Release
CRISIL	CRISIL B+/Stable; ISSUER NOT COOPERATING /CRISIL A4; ISSUER NOT COOPERATING	November 29, 2024

Any other information: None

Rating history for past three years

	Current (FY2026)			Chronology of rating history for the past 3 years					
	FY2026			FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	April 21, 2025	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long-term	16.00	**[ICRA]BBB (Stable)**	-	-	Jan-31-2024	[ICRA]BBB (Stable)	Nov-30-2022	[ICRA]BBB (Stable)
				-	-	Feb-26-2024	[ICRA]BBB (Stable)		
Cash Credit	Long-term	35.00	**[ICRA]BBB (Stable)**	-	-	Jan-31-2024	[ICRA]BBB (Stable)	Nov-30-2022	[ICRA]BBB (Stable)
				-	-	Feb-26-2024	[ICRA]BBB (Stable)		
Non Fund-Based Facilities	Short term	6.50	**[ICRA]A3+**	-	-	Jan-31-2024	[ICRA]A3+	Nov-30-2022	[ICRA]A3+
				-	-	Feb-26-2024	[ICRA]A3+		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term –Fund based- Term Loans	Simple
Long term – Fund Based-Cash Credit	Simple
Short term - Non-fund based Facilities	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	**Term Loans**	FY2017	NA	FY2027	16.00	[ICRA]BBB(Stable)
NA	**Cash Credit**	NA	NA	NA	35.00	[ICRA]BBB(Stable)
NA	**Non Fund-Based Facilities**	NA	NA	NA	6.50	[ICRA]A3+

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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