

April 03, 2023

SRJ Peety Steels 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 Term Loans	62.27	30.20	[ICRA]BBB+(Stable); reaffirmed
Long-term - Fund-based Cash Credit	182.00	172.00	[ICRA]BBB+(Stable); reaffirmed
Short-term - Non-fund Based Bank Guarantee	9.73	38.25	[ICRA]A2; reaffirmed
Long-term/short-term – Unallocated	-	13.55	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	254.00	254.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in the extensive experience of SRJ Peety Steels Private Limited's (SRJ) 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 healthy capacity utilisation rates. The ratings also factor in SRJ's comfortable financial profile, marked by a low gearing and healthy coverage indicators. 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 FY2024. ICRA expects SRJ's financial profile to remain comfortable, aided by its healthy cash flows and limited capex plans. Its liquidity position also remains comfortable underpinned by a sizeable cushion in the form of unutilised working capital limits with commensurate drawing power.

ICRA notes the income tax raid on the company's premises in August 2022. As per the management, the additional tax liability on undisclosed income, as assessed by the income tax department, has been deposited, and there are no pending income tax demands/notices/litigations as on date. There has been no impact on the company's operations and on the availability of bank funding. ICRA would continue to closely monitor any further development related to this event and any incremental tax liability in this regard would be a key monitorable.

The ratings are also tempered 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 cyclicality in the steel industry, which keeps its profits and cash flows volatile. ICRA notes that the company has been regularly incurring largely debt-funded capital expenditure (capex) towards capacity expansion. The company's ability to ramp up the operations of the expanded capacity remains an important factor, 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 and its credit profile will remain comfortable given the limited capex plans.

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, who has 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 – The company has a partially integrated facility, characterised by the presence of induction furnaces and continuous caster to produce billets using sponge iron, pig iron, scrap etc. These, in turn, are captively consumed towards the 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 of billet and TMT division has remained healthy at over 85% during the last five years despite the company undertaking regular capacity expansions. As SRJ's manufacturing facility is 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. The company is eligible to receive a total capital subsidy of Rs. 351 crore, of which Rs. 136 crore has been received till date. The company is also eligible to receive a power subsidy of Rs. 0.6 per unit, which supports operating profitability. ICRA notes that the company has been prepaying its term debt out of the proceeds of subsidy.

Comfortable financial profile – The company's financial profile is comfortable, marked by a low gearing and healthy coverage indicators. In FY2022, SRJ reported revenue of Rs. 1,743 crore (reflecting a healthy YoY growth of 59%) and an OPM of 7.2% given the favourable demand conditions, which led to higher sales volumes and an increase in sales realisations. SRJ is likely to sustain its high revenue base and report a revenue growth of 10-12% in FY2023 on the back of continued healthy sales volumes and elevated sales realisations. Along with controlled working capital cycle and limited capex, the credit metrics are likely to remain satisfactory in FY2023, with expected net debt-to-operating profit ratio of under 1.0 times. The gearing improved to 0.4 times as on January 31, 2023 (as per provisional estimates) from 0.9 times as on March 31, 2022. 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 FY2024. ICRA expects SRJ's financial profile to remain robust, aided by its healthy cash flows and limited capex plans.

Credit challenges

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.

Regular debt-funded capex – Over the past five to six years, the company has been incurring debt-funded capex towards capacity expansion. 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 the company's track record of achieving healthy capacity utilisation level.

ICRA notes that the promoters, through the sister concern of SRJ, plan to set up a greenfield project to manufacture steel pipes in Jalna, Maharashtra (under SRJ Strips and Pipes Private Limited). However, as confirmed by the management, the project has been kept on hold, as of now. Going forward, any large advance/letter of comfort/corporate guarantee extended by SRJ to the Group companies/related parties would be a key monitorable.

Liquidity position: Adequate

SRJ's liquidity position is **adequate**, supported by average undrawn working capital limits (with commensurate drawing power) of Rs. 91 crore during the last 12-month period ended in December 2022. SRJ's cash flow generation improved in 10M FY2023 due to higher sales volumes and improved profitability and the same was largely deployed towards working capital requirements as well as reduction in debt. Cash generation in the business is likely to be around Rs. 80-100 crore, sufficient to service the term loan repayment obligations of Rs. 24-26 crore each in FY2024 and FY2025. The company's annual maintenance capex is expected to be around Rs. 20 crore. ICRA notes that the company is currently operating at ~90-95% capacity and there may be a requirement to further increase its capacity over the next one year. The capex outlay towards the same is expected at around Rs. 30 crore. ICRA expects the same to be funded in a prudent mix of debt and equity, as has been the case in the past.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings if the company demonstrates a consistent growth in revenues and profitability on a sustained basis while maintaining its comfortable financial profile.

Negative factors - Pressure on the ratings 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 Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SRJ.

About the company

Incorporated in 1985, SRJ manufactures billets and thermo-mechanically treated (TMT) bars. At present, SRJ has a billet manufacturing unit and a rolling mill unit with installed capacities of 3,60,000 tonnes per annum (TPA) each. The billets manufactured are largely consumed in-house for manufacturing TMT bars. The company's manufacturing facility is in Jalna, Maharashtra. The company sells its TMT bars under the brand name, Shree Om.

Key financial indicators - Audited

Standalone	FY2021	FY2022
Operating Income (Rs. crore)	1,095.2	1,743.2
PAT (Rs. crore)	59.1	76.6
OPBDIT/OI (%)	8.5%	7.2%
PAT/OI (%)	5.4%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.1
Total Debt/OPBDIT (times)	2.2	2.2
Interest Coverage (times)	9.1	6.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					03-Apr-2023	-	16-Mar-2022	-
1	Fund-based Term Loan	LT	30.20	30.20*	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	-
2	Fund-based Cash Credit	LT	172.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	-
3	Non-fund Based Bank Guarantee	ST	38.25	-	[ICRA]A2	-	[ICRA]A2	-
4	Unallocated Limits	LT/ST	13.55	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

LT – Long-term; ST – Short-term; *as on March 23, 2023

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Fund-based Term Loans	Simple
Long-term - Fund-based Cash Credit	Simple
Short-term - Non-fund Based Bank Guarantee	Very Simple
Long-term/Short-term - Unallocated	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loans	FY2021	8.50-9.00%	FY2026	30.20	[ICRA]BBB+(Stable)
NA	Cash Credit	-	-	-	172.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee	-	-	-	38.25	[ICRA]A2
NA	Unallocated Limits	-	-	-	13.55	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Sakshi Suneja

+91 22 6169 3349

sakshi.suneja@icraindia.com

Rishabh Mundada

+91 20 6606 9920

rishabh.mundada@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.