July 25, 2017

Shri Hare Krishna Sponge Iron Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	8.00	[ICRA]B (Stable); reaffirmed
Non Fund-based Limits	5.50	[ICRA]A4; reaffirmed
Total	**13.50**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B) assigned to the Rs. 8.00-crore[1] fund-based facility of Hare Krishna Sponge Iron Limited (SHKSIL)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 5.50-crore non-fund based bank facilities of SHKSIL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the ratings takes into account SHKSIL's modest scale of operations at present and its weak profitability indicators. The ratings are also constrained by the high working capital intensity of operations owing to significant stocking requirements along with the cyclicality inherent in the steel industry, which is going through a difficult phase. The ratings also factor in the company's dependence on external sources for procurement of raw materials, exposing SHKSIL to volatility in raw material and finished goods prices, which are likely to keep SHKSIL's profitability and cash flows volatile. The ratings, however, derive comfort from the experience of the promoters in the steel industry and low reliance on external debt, leading to a comfortable capital structure of the company. ICRA also takes note of the location-specific advantage of SHKSIL, with proximity to raw material sources, which reduces supply risks and also keeps freight costs low.

In ICRA's opinion, the company's ability to increase the scale of operations while improving profitability and maintain a conservative capital structure would remain key rating sensitivities, going forward.

Key rating drivers

Credit strengths

- Experience of the promoters in the steel industry
- Strategic location of the manufacturing unit results in proximity to raw material sources and customer base, which reduces freight costs and augments sales
- Conservative capital structure

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Credit weaknesses

- Modest scale of operations and weak profitability indicators
- Dependence on external sources for procurement of raw materials exposes it to volatility in raw material prices
- Working capital intensive nature of operations primarily driven by sizeable inventory holdings
- Cyclical nature of the steel industry likely to keep SHKSIL's profitability and cash flows volatile

Description of key rating drivers:

Incorporated in May 2003, SHKSIL started manufacturing of sponge iron from 2004 with an installed capacity of 30,000 metric tonne per annum (MTPA). In 2006, the company had set up its induction furnace for manufacturing MS ingots with an installed capacity of 16,200 MTPA. In 2007, the company had set up rolling mill for manufacturing MS structurals with an installed capacity of 24,000 MTPA. However, the unit was closed down in 2009 as the management did not consider it a profitable venture. In 2011, the company had set up a steel-shot manufacturing unit with an installed capacity of 5,100 MTPA. However, due to sluggish demand and weak macro-economic scenario prevailing in the country, the company closed down its induction furnace and steel-shot unit in October 2014 and is operating only its sponge-iron unit. The manufacturing facilities of the company are located at Siltara, Chhattisgarh.

The major raw materials required for manufacturing of sponge iron are iron ore and coal. SHKSIL sources iron ore primarily from National Mineral Development Corporation (NMDC) and coal from South Eastern Coalfields Ltd (SECL). Iron ore and coal are primarily procured against letter of credit or advance payment. SHKSIL receives a credit period of ~30 days for procurement of other raw materials from the local suppliers. By virtue of its location, SHKSIL enjoys proximity to its key raw materials, which ensures timely availability and also keeps inward freight costs under control. However, external dependence of SHKSIL for the procurement of raw materials makes profitability and cash flows of the company susceptible to the fluctuations in input and output prices.

The capacity utilisation of the company stood at 96% in FY2017 (P). The average realisation per MT of sponge iron declined to ~Rs. 15,474 / MT in FY2016 from ~Rs. 20,835 / MT during FY2015, leading to a de-growth in top-line by ~39% during FY2016. There was further reduction in the sales realisation of sponge iron by ~8% in FY2017. On account of significant decrease in the realisation of sponge iron with no significant fluctuation in the prices of raw materials, the OPM deteriorated to -13.13% in FY2016. On account of decline in prices of raw materials in FY2017, the company recorded an operating margin of 3.38% in FY2017. The capital structure of the company remained conservative in the past few years backed by comfortable net worth. The coverage indicators of the company remained weak due to overall modest profitability in FY2017. The working capital intensity, as indicated by the NWC/OI, increased from ~31% in FY2015 to ~35% in FY2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology
Entities in the Ferrous Metals Industry

About the company:
Incorporated in 2003, SHKSIL manufactures sponge iron with an installed capacity of 30,000 metric tonne per annum (MTPA). Besides, the company has capacities for manufacturing mild steel ingots and

steel shots with an installed capacity of 16,200 MTPA and 5,100 MTPA, respectively, although the operations of the same are suspended at present. The manufacturing facilities of the company are located at Siltara, Raipur, Chhattisgarh.

Key financial indicators	FY2016	FY2017*
Operating income (crores)	39.47	43.37
PAT (crore)	-6.21	-
OPBDIT/ OI (%)	-13.13%	3.38%
RoCE (%)	-19.30%	-
Total Debt/ TNW (times)	0.32	-
Total Debt/ OPBDIT (times)	-1.12	4.02
Interest coverage (times)	-5.84	1.33
NWC/ OI (%)	30%	-

*Provisional

OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Source: Financial statements of SHKSIL and ICRA research

Status of non-cooperation with previous CRA:

CRA	Status of Non-cooperation	Date of Press Release
CRISIL LTD.	Ratings Suspended	September 09, 2016

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating 2017			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	-	February 2016	-
1	Cash Credit	Long Term	8.00	[ICRA]B (Stable)	-	[ICRA]B	-
2	Letter of Credit*	Short Term	5.00	[ICRA]A4	-	[ICRA]A4	-
3	Bank Guarantee	Short Term	0.50	[ICRA]A4		[ICRA]A4	-

**interchangeability of Cash Credit (CC) limit into Letter of Credit (LC) limit, if LC limit exceeds Rs. 5.00 crore by reducing CC limit*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	8.00	[ICRA]B (Stable)
Letter of Credit*	-	-	-	5.00	[ICRA]A4
Bank Guarantee	-	-	-	0.50	[ICRA]A4

**interchangeability of Cash Credit (CC) limit into Letter of Credit (LC) limit, if LC limit exceeds Rs. 5.00 crore by reducing CC limit*

Source: Shri Hare Krishna Sponge Iron Limited

Contact Details

Analyst Contacts

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

Relationship Contact
Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

Relationship Contact
Jayanta Chatterjee
+91 80 4332 6401
jayantac@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**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	