

SRMB Srijan Private Limited

Brickwork Ratings reaffirms the ratings of the long-term and short-term Bank Loan Facilities of SRMB Srijan Private Limited with a revision in the Outlook to Positive from Stable and a reduction in the total exposure.

Particulars:

Facility@	Amount (₹ Crs)		Tenure	Ratings*	
	Previous	Present		Previous (Sept,2019)	Present
Fund based Limit	231.06	169.15	Long Term	BWR A-/Stable, Upgrade	BWR A-/Positive, Reaffirmed along with revision in outlook to 'Positive' from 'Stable'
Non Fund based Limit	55.00	55.00	Short Term	BWR A2+, Upgrade	BWR A2+, Reaffirmed
Total	286.06	224.15	(INR Two Hundred Twenty Four Crores and Fifteen Lakhs Only)		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

@Complete details of bank facilities are provided in Annexure-I

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) has essentially relied on the audited financials of SRMB Srijan Private Limited (SRMB or the company) for FY19 and FY20, and key numbers for 5MFY21 and projections for FY21, FY22 and FY23, along with other information as available in the public domain and information/clarifications provided by the company and its bankers, to arrive at the present ratings.

Based on a review, BWR has reaffirmed the rating for the long-term bank loan facilities of Rs.169.15 Crs (reduced from Rs.231.06 Crs) of SRMB at BWR A-, along with a revision in the outlook to Positive, and has reaffirmed the rating for its short-term bank loan facilities of Rs.55.00 Crs at BWR A2+ (aggregate rated amount reduced to Rs.224.15 Crs from Rs.286.06 Crs).



The outlook has been revised to ‘**Positive**’, considering the improvement in the company’s financial performance and liquidity during FY20 and the expected improvement in revenue and profitability on account of the ongoing expansion project for the Phase-II of the Steel Melting Unit at Durgapur, West Bengal. The rating outlook may be revised to ‘**Stable**’ if the company is not able to achieve revenue or operating profitability as per expectations during FY21, or if there is a delay in completion of the ongoing project at Durgapur.

The rating reaffirmation draws strength from the company’s established track record and experienced management team. The rating also considers its strong brand building with a renowned Bollywood actress and former great Indian Cricket World Cup winning captains. The rating also takes into account its current ongoing implementation of a steel-melting plant, which is likely to improve operating margins FY22 onwards. The rating further draws comfort from the improvement in credit metrics and other debt protection metrics during FY20, the company’s strong presence in the eastern part of India, and low customer and supplier concentration risks.

The rating is, however, constrained by stagnant revenue generation during FY20 and the risk of time and cost overruns for the current ongoing Phase-II project. The rating further factors in the susceptibility of operating margins to volatility in input costs and cyclicity in the steel sector.

Going forward, the company’s ability to improve revenue from current levels, along with improvement in operating margins, leading to an improvement in the net financial leverage on a sustained basis, is a key monitorable.

KEY RATING DRIVERS

Credit Strengths:

Established track record and experienced management: SRMB Srijan Pvt Ltd was incorporated in 2001 by the Beriwala family, which is a part of SRMB Group. It is currently headed by Chairman and Managing Director Mr Brij Mohan Beriwala, supported by his sons Mr Nikunj Beriwala and Mr Ashish Beriwala, who are also the company’s directors. The promoters have more than four decades of experience in the steel business and are supported by a qualified and experienced professional team in place.

Strong brand building: The company had been investing heavily to build its brand and reach the majority of the retail population. The company has successfully introduced SRMB REALEDGE branded steel for window sections, with renowned Bollywood actress Madhuri Dixit as its brand ambassador, along with two of the greatest and respected Cricket World Cup Winning Captains Kapil Dev and Mahendra Singh Dhoni. The total advertisement expenses borne by the company during FY20 were Rs.63.64 Crs (FY19:Rs.46.03 Crs), which formed 5.08% (FY19:3.62%) of the total operating income.

Implementation of steel melting plant to improve operating margins FY22 onwards: The company’s EBITDA margin improved to 5.24% as per provisional financials for FY20, compared to 3.63% in FY19. The improvement in the operating margin was on account of a decrease in raw

material prices.

The first phase of the in-house billet manufacturing unit was completed in October 2018. The total production capacity installed was 2,91,000 MTPA. However, the total raw material requirement for manufacturing TMT was not being met from this unit, and hence, the company decided to start the second phase. The construction of the second phase of the project of the Steel Melting process (in-house billet manufacturing) started June 2020 onwards, and the project is expected to be completed by November 2021 (taking into account possible delays that may occur due to the ongoing pandemic). The company has also undertaken parallel debottlenecking exercises in its existing rolling mills and is expected to increase finished production in conjunction with the second phase of the billet production expansion. The debottlenecking exercise in both the existing mills is expected to increase finished production by 20%, further reducing the existing conversion cost of the mills. With the commencement of in-house billet manufacturing, the EBITDA margin is expected to improve FY22 onwards.

As of 5MFY21, the company has booked an EBITDA margin of 8.68%, which improved from FY20 level of 5.24%.

Improvement in credit metrics and other debt protection metrics during FY20: SRMB's credit metrics improved in FY20, with interest coverage of 3.06 times (FY19: 2.12 times; FY18: 1.61 times), a DSCR of 2.11 times (FY19:1.61 times; FY18: 1.21 times) and net financial leverage of 2.14 times (FY19: 4.42 times: FY18: 6.26 times). The improvement in the ISCR and DSCR was mainly because of an increase in the absolute EBITDA to Rs.65.69 Crs in FY20 (FY19: Rs.46.04 Crs; FY18: Rs.33.68 Crs). The improvement in the net financial leverage was on account of the improvement in operating EBITDA and decrease in the total debt to Rs.143.41 Crs in FY20 from Rs.206.21 Crs in FY19 (FY18:Rs.211.75 Crs).

The company's tangible net worth (excluding revaluation reserve) improved to Rs.180.50 Crs in FY20 from Rs.157.52 Crs in FY19 (FY18:Rs.145.00 Crs) on account of the plough back of the net profit. The improvement in the tangible net worth and decrease in total debt during FY20 helped in improving other debt protection metrics such as the debt-equity ratio, as well as total outside liabilities to the tangible net worth. The company's debt-equity improved to 0.79 times during FY20 from 1.31 times in FY19 (FY18:1.46 times) and total outside liabilities to tangible net worth of the company improved to 1.56 times in FY20 from 1.72 times in FY19 (FY18:1.92 times).

Credit metrics are likely to deteriorate slightly in FY22 on account of the addition of a new long-term loan of Rs.77.00 Crs estimated for Phase-II Steel Melting Unit, against the total estimated project cost of Rs.110.00 Crs.

Strong presence in eastern part of India: The company has an established clientele and well-recognised brand names of SRMB TMT (Feature-Wingrip) and SRMB Reledge (Feature-Grill/window section) in the East and North East regions. It is now exploring a franchise model to leverage its brand name in Kerala, Karnataka and Tamil Nadu. The company generated 75% of the total revenue from Eastern and North Eastern regions. It has been trying to capture the rest of the Indian market, and hence, is advertising aggressively.



Low customer concentration risk: The company's customer concentration risk stands low, as reflected by its sales to the top five customers, which contributed only 19.82% during FY20 (FY19: 11.8%).

Low supplier concentration risk: The company's supplier concentration risk also stands low, as reflected by sales from the top five suppliers, which contributed only 21.7% during FY20 (FY19: 12.57%).

Credit Weaknesses:

Stagnant revenue generation during FY20: The company booked a total operating income of Rs.1,253.58Cr during FY20, which decreased from Rs.1,270.10 Crs in FY19 (FY18: Rs.860.93 Crs). The decrease in revenue during FY20 was on account of a decrease in average sales realisation and the absence of sales during the last 15 days of March 2020 due to the pandemic-induced lockdown. Although revenue booking was marginally lower during FY20 compared with FY19, the company was able to generate higher sales volumes during FY20 compared with FY19. The total sales volume during FY20 was 309,281 MTPA, against 275,800 MTPA in FY19 (FY18:233,747 MTPA).

The company could have generated additional revenue of around Rs.70 Crs, had it not been for the nationwide lockdown during end-March 2020. The same work orders were, however, executed during May 2020, when production resumed after a month's closure during April 2020 on account of the lockdown.

As of 15 September 2020, the company had already booked revenue of Rs.484.79 Crs in FY 20-21 and expects to book revenue of around Rs.1,441.97 Crs by year-end, i.e., by March 2021.

Risk of time and cost overruns for current ongoing Phase-II project: On account of the current pandemic situation and rising number of Covid cases, the risk of completing phase-II of Steel Melting project in time may arise, and any delay in completion may lead to time and cost overruns. The risk at present is, however, mitigated by the fact that out of the estimated Rs.77.00 Crs required, the company has already tied-up for Rs.50 Crs of long-term loan from its lenders. The availability of required funds will help in completing the project within the stipulated time period of November 2021. The estimated project completion date has considered possible delays that may occur on account of the current pandemic situation.

Susceptibility of operating margins to volatility in input cost: The prices of key raw materials, such as iron ore and coking coal, have shown a volatile trend over the years and are determined by market forces. The company has taken concrete steps to maintain steady prices on end products without impacting its regular customers. Although it can pass on the increased cost to end users, any adverse input cost will impact profitability margins.

Cyclicality in steel industry: The steel industry is highly cyclical in nature and correlated with economic development, which directly affects its fortunes. This is the inherent risk of the steel

industry.

ANALYTICAL APPROACH

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria given below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: An improvement in revenue, along with an improvement in operating margins, leading to net financial leverage below 1.5 times may result in a positive rating action.

Negative: A deterioration in the EBITDA margin, leading to a deterioration in the credit metrics or liquidity position of the company, may trigger a negative rating action.

LIQUIDITY INDICATORS: Adequate

The company's liquidity position stands adequate, as reflected by the cash and cash equivalents of Rs.2.32 Crs during FY20 (FY19:Rs.2.42 Crs) as well as low working capital utilisation of 57.41% per month on an average, against the total cash credit limits of Rs.161 Crs for the last six months ended August 2020. As of end-August 2020, SRMB had utilised only Rs.82.01Crs of the total cash credit limits of Rs.161 Crs and has the option to avail Rs.78.99 Crs to meet any unforeseen eventuality.

Liquidity is further supported by the pre-payment of the long-term loan by the company during FY20 and FY21 till date. The total debt repayment obligation during FY20 was Rs.10.45 Crs, against which the total repayment made was Rs.12.08 Crs, while the total debt repayment obligation for FY21 was also Rs.10.45 Crs, against which the company has already repaid Rs.36.22 Crs. The entire pre-payment of the long-term debt was done from the company's internal accruals. The company currently has an outstanding term loan balance of Rs.8.15 Crs only, which is expected to be repaid within a month's time, as advised by the management during the course of discussions.

The company is currently undergoing a capex of Rs.110 Crs on account of the expansion of Phase-II of the Steel Melting Unit in Durgapur, West Bengal. The project is estimated to be funded through Rs.77.00 Crs of long-term debt and the rest via internal accruals. Long-term debt of Rs.50.00 Crs from one of its lenders has already been tied-up, and the balance amount of Rs.27.00 Crs is expected to be tied-up soon. The company's current ratio also remained acceptable at 1.49 times during FY20, against 1.37 times in FY19. Furthermore, the net cash cycle of the company improved to 56 days during FY20 from 60 days in FY19.

ABOUT THE COMPANY

SRMB Srijan Pvt Ltd (SRMB) was incorporated in 2001 by the Beriwalas family, as part of the SRMB Group. It manufactures billets and TMT, with a licensed capacity of 1,80,000 MT and 3,25,000 MT, respectively. The company's registered office is in Kolkata, and the manufacturing unit is in Durgapur, West Bengal. Mr. Brij Mohan Beriwalas, Mr. Nikunj Beriwalas and Mr. Ashish Beriwalas are the company's directors.

The company has a strong brand recall in the eastern and north eastern parts of the country, and is now foraying into the rest of India.

COMPANY FINANCIAL PERFORMANCE

Particulars	Units	FY19A	FY20A
Total Operating Income	Rs in Crs	1270.10	1253.58
EBITDA	Rs in Crs	46.04	65.69
PAT	Rs in Crs	12.51	22.97
Tangible Net worth (Excluding revaluation reserve)	Rs in Crs	157.52	181.82
Total Debt/TNW	Times	1.31	0.79
Current Ratio	Times	1.37	1.49
ISCR	Times	2.12	3.06
TOL/TNW	Times	1.73	1.56

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

RATING HISTORY FOR LAST THREE YEARS (including withdrawn and suspended ratings)

S · N o	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilities /Commercial Paper etc.)	Current Rating 30 September 2020			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable																																
		Type (Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating	Date(s) & Rating(S) assigned in 2019		Date(s) & Rating(s) assigned in 2018		Date(s) & Rating(s) assigned in 2017																												
1	Bank Loan Facility	Fund Based-Long Term	169.15	BWR A-/Positive [^] , Reaffirmed	23-October-2019 <table border="1"> <tr> <td>FB-LT*</td> <td>231.06</td> <td>BWR A-/Stable, Upgraded,</td> </tr> <tr> <td>NFB-ST**</td> <td>55.00</td> <td>BWR A2+, Upgraded</td> </tr> <tr> <td>Total</td> <td>286.06#</td> <td></td> </tr> </table> <i>#Upgraded with reduction in total exposure.</i>		FB-LT*	231.06	BWR A-/Stable, Upgraded,	NFB-ST**	55.00	BWR A2+, Upgraded	Total	286.06#		13-November-2018 <table border="1"> <tr> <td>FB-LT*</td> <td>258.10</td> <td>BWR BBB+/Stable, Upgrade</td> </tr> <tr> <td>NFB-ST*</td> <td>35.00</td> <td>BWR A2, Upgrade</td> </tr> <tr> <td>Total</td> <td>293.10</td> <td></td> </tr> </table> <i>#Reaffirmed with reduction in total exposure.</i>		FB-LT*	258.10	BWR BBB+/Stable, Upgrade	NFB-ST*	35.00	BWR A2, Upgrade	Total	293.10		12-October-2017 <table border="1"> <tr> <td>FB-LT</td> <td>292.23</td> <td>BWR BBB/Stable, Assigned</td> </tr> <tr> <td>NFB-ST</td> <td>34.00</td> <td>BWR A3, Assigned</td> </tr> <tr> <td>Total</td> <td>326.23</td> <td></td> </tr> </table>		FB-LT	292.23	BWR BBB/Stable, Assigned	NFB-ST	34.00	BWR A3, Assigned	Total	326.23	
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2		Non-Fund Based-Short Term	55.00	BWR A2+, Reaffirmed																																	
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Note: SRMB was initially rated on 12 October 2017, and the rating assigned was BWR BBB/Stable and BWR A3.

*FB- Fund Based-Long Term

**NFB- Non Fund Based-Short Term

[^]Reaffirmed along with revision in outlook to 'Positive' from 'Stable'.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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ANNEXURE 1-SRMB Srijan Private Limited Details of Consortium Bank Facilities Rated by BWR

SBI is the lead banker								
Type of Facility (₹ in Cr)		PNB (OBC)	Indian Bank (Allahaba d Bank)	HDFC Bank	SBI	South Indian Bank	BOB (Vijaya Bank)	Amount to be rated
Fund Based	Cash Credit	4.00	37.00	30.00	45.00	45.00	-	161.00
	Term Loan	7.56	0.19	-	-	0.19	0.21	8.15
Long Term Total		11.56	37.19	30.00	45.00	45.19	0.21	169.15
Non Fund Based	Letter of Credit / FLC	(20.00)	-	-	-	10.00	-	10.00
	Bank Guarantee (Sublimit of LC)	45.00	-	-	-	(5.00)	-	45.00
	BG		20.00					
Short Term Total		45.00	20.00	-	-	10.00	0.00	55.00
Long & Short Term Total		56.56	57.19	30.00	45.00	55.19	0.21	224.15



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