Rating Rationale

SGMM Ores Pvt. Ltd.

16 May 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 5.50 Crores of SGMM Ores Pvt. Ltd..

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	**5.50**	**Long Term**	**BWR BB (Pronounced as BWR Double B) Outlook: Stable**
Total	**5.50**	**INR Five Crores Fifty Lakhs Only**	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon SGMM Ores Pvt Ltd (SOPL)Audited Financial Statements from FY16 to FY18 for ease in understanding and comparison. SOPL has also provided the projected financial statements for FY19 & FY20, publicly available information and information / clarification provided by the SOPL management.

The ratings assigned to the bank facilities of SOPL draws strength from extensive experience of the promoters, modest scale of operations, moderate coverage ratios, above average liquidity profile.

The ratings are however constrained by susceptibility to cyclicality in end user industries and volatility in iron ore prices,low level of owned funds, stretched gearing, low profitability margins.

The ability of the company to improve its scale, networth, profitability, coverage and maintaining its liquidity, gearing and working capital would be its key rating sensitivity.

Description of Key Rating Drivers

Credit Strengths:

Experienced promoters: The directors have an experience of over 10 yrs in the same field, with over 5 yrs in SOPL.

Modest scale of operations: Modest scale of operations with the TOI standing at Rs 49.88 Cr in FY18 as compared to Rs 41.58 Cr in FY17.

Moderate coverage ratios: Moderate coverage ratios with the ISCR & DSCR standing at 2.09x & 1.47x respectively in FY18 as compared to 2.78x & 1.46x respectively in FY17.

Above average liquidity profile: Above average liquidity profile with the current ratio standing at 2.14x in FY18 as compared to 0.81x in FY17.

Credit Risks:

Susceptibility to cyclicality in end-user industries and volatility in iron ore prices: Iron ore prices are volatile and fluctuate in response to relatively minor changes in supply and demand, economic changes, cyclicality in the steel industry, among other factors. Reduction in demand and iron ore price affects the company's revenue and profitability.

Low level of owned funds: Low level of owned funds with the TNW standing at Rs 1.91 Cr in FY18 as compared to Rs 1.49 Cr in FY17 whereas the TNW analysed stands at Rs4.72 Cr in FY18 as a result of the unsecured loans taken from directors and relatives.

Stretched gearing: Stretched gearing with the total debt/ TNW & TOL/TNW standing at 5.29x & 10.46x respectively in FY18 as compared to 7.11x & 11.99x respectively in FY17. Whereas, the total debt/ TNW analysed stands at 1.54x in FY18.

Low profitability margins: Low net profit margins at 0.84% in FY18 as compared to 0.66% in FY17 which has improved but still low.

Liquidity profile: The average CC utilization in the last 6 months is 55.57%. The company has cash and cash equivalents amounting to Rs 0.30 Cr in FY18. The current ratio of the concern stands at 2.14x in FY18.

Analytical Approach

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

Rating Outlook: *Stable*

BWR believes the **SGMM Ores Pvt. Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Sgmm Ores Private Limited is majorly in Mining & Quarrying business from last 7 years and currently, company operations are active. Sgmm Ores Private Limited ranks 766th in India and 59th in Madhya Pradesh for its registered line of business Mining of iron ores [includes mining of hematite, magnetite, limonite, siderite or taconite etc. which are valued chiefly for iron content. Production of sintered iron ores is also included]., while there are total 802 companies in India and 70 in Madhya Pradesh which are registered with MCA having the same line of business. The company has 7.310 hectare of land on lease in Gandhinagar and the capacity of the same is 80000 MT /p.a

Company Financial Performance

During FY17, the total operating income of SOPL stood at Rs.41.58 crore (vis-à-vis Rs.49.88 crore in FY18), whereas the PAT during the same year stood at Rs. 0.28 crore (vis-à-vis Rs 0.42 crore in FY18). DSCR stood at 1.46 Times in FY17 as compared to 1.47 Times in FY18.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	49.88	41.58
EBITDA	₹ Cr	2.98	2.70
PAT	₹ Cr	0.42	0.28
Tangible Net worth	₹ Cr	1.91	1.49
Tangible Net worth (Analysed)	₹ Cr	4.72	4.02
Total Debt/Tangible Net worth	Times	5.29	7.11
Total Debt/Tangible Net worth (analysed)	Times	1.54	2.00
Current Ratio	Times	2.14	0.81

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1	**Fund Based**	Long term	5.50	**BWR BB (Pronounced as BWR Double B) Outlook : Stable**	**NA**	**NA**	**NA**
	Total		**5.50**	**₹ Five Crores Fifty lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)- NA
Any other information

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor Contacts
Sushil Kumar Chitkara Associate Director - Ratings B :+91 22 2831 1426, +91 22 2831 1439 sushilkumar.c@brickworkratings.com **Saloni R Singh** Ratings Analyst D : +91 22 6745 6647 B :+91 22 2831 1426, +91 22 2831 1439 saloni.r@brickworkratings.com	**Satish Nair** Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 80 6745 6666 satish.n@brickworkratings.com
1-860-425-2742	

For print and digital media
The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.