



## Rating Rationale

Satya Power And Ispat Ltd.

07 Mar 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 35 Crores of Satya Power and Ispat Ltd.

## Particulars

Facility	Amount (₹ Crs)	Tenure	Rating Assigned <sup>^</sup>
<b>Fund based</b>			
Cash Credit -1 ( Hyp) - For Sponge Iron	10.00	Long Term	BWR BBB - (Pronounced as BWR Triple B Minus) Outlook: Stable
Cash Credit - BD ( Sublimit of CC1 )	(2.00)		
Cash Credit -2 (Hyp) - For Coal Washery	10.00*		
Cash Credit -BD ( Sublimit of CC2)	(1.80)		
<b>Non Fund Based</b>			
Letter of Credit	15.00**	Short Term	BWR A3 (Pronounced as BWR Single A Three)
Bank Guarantee (Sub Limit of LC)	(3.00)		
<b>Total</b>	<b>35.00</b>	<b>Rs.Thirty Five Crores Only</b>	

\*Includes proposed CC limits of 7 Crs. \*\* Includes Proposed LC limit of Rs.10 Crs.

<sup>^</sup>Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

**BWR has assigned Long Term Rating of BWR BBB- ( Outlook: Stable) and Short Term Rating of BWR A3.**

### **Rationale/Description of Key Rating Drivers/Rating sensitivities:**

BWR has essentially relied upon audited financial results of Satya Power And Ispat Ltd ('SPIL' or 'the Company') upto FY18, publicly available information and information provided by the management of the Company.



The ratings draw comfort from the promoters' experience of more than a decade in their line of business activity, healthy growth in revenues and profitability in FY18, diversified revenue portfolio and strong financial risk profile.

The ratings, however, are constrained on account of volatility in raw material prices and susceptibility to fluctuations in demand and intense market competition.

Ability of the promoters to scale up operations along with profitability, diversifying the revenue profile to other sectors, and timely servicing debt payment obligations will be the key rating sensitivities.

## Description of Key Rating Drivers

### Credit Strengths

- **Established track record of operations and experienced management:** The company was incorporated in 2003 to manufacture sponge iron. Subsequently, the company commenced operations in coal washery from 2016. The promoters, Mr. Ramavtar Agrawal and Mr. Pawan Kumar Agrawal possess extensive experience in the iron and steel industry and civil construction.
- **Robust financial risk profile:** The Company has low overall gearing (TOL/TNW ratio) of 0.51 times in FY18. The overall gearing is supported by comfortable ISCR of 11.04x in FY18 on account of moderate operating profit margin of 25.03% coupled with comfortable Tangible Network of Rs.41.89Cr in FY18.
- **Increase in Total Operating Income and Profitability :** Total Operating Income of the company has shown substantial increase of 85.40% in FY18 from Rs.41.74 Crs in FY17 to Rs.77.39Cr in FY18, mainly owing to commencement of coal washery unit in FY18. Further, the company has achieved sales of Rs.119.79Cr for 10MFY19 as per the information shared by the management, which is in line with the sales projections for FY19. Further, the profitability of the company has shown a substantial improvement and the same stood at Rs.15.16Cr in FY 18 vis-a-vis Rs.2.18Cr in FY 17.
- **Strategic decisions to improve profitability margins:** The company's EBITDA margins improved from 10.71% in FY17 to 25.03% in FY18 due to the management's strategic decision to setting up of a coal washery unit which commenced its commercial operations in FY18. Coal washery is a higher margin product offering of the company and is contributing 33% in the total revenue of the company preceded by sponge iron.

### Credit Risks

- **Susceptibility to fluctuations in demand and intense market competition :** Steel, power and cement industries are the major users of coal. Low demand from these industries may impact the overall performance of the company. Further, the company is exposed to intense competition from several small and medium size players.



- **Volatility in raw material prices:** Prices of major raw material such as iron ore, non-coking coal and dolomite required for manufacturing of sponge iron are volatile in nature which would impact profitability.

**Liquidity:** The liquidity position of the company is marked by healthy cash accruals of around Rs.16.36Crs in FY18 vis-a-vis Rs.3.24 crore in FY17 in absence of any term debt obligation in FY 18. Moreover, the cash credit utilisation is 80%. This provides further cushion to its liquidity profile. BWR expects the liquidity position of the company to be maintained at comfortable levels over the medium term.

### **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 **Satya Power And Ispat Ltd.**'s 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**

Satya Power and Ispat Limited (SPIL), incorporated in 2003, is a Bilaspur-based company promoted by Mr. Ramavtar Agrawal and Pawan Kumar Agrawal. The company is engaged in the manufacturing of sponge iron and also washing, trading and transportation of coal. SPIL has manufacturing capacity of 60,000 MTPA for sponge iron and 1.44 MTPA for coal washery. The company caters mainly to Punjab, Chhattisgarh, Maharashtra and Uttar Pradesh.

### **About the Group**

The directors of Satya Power Ispat Ltd. are also directors in 3 different companies viz. Agarwal Infra Build Pvt. Ltd., Ganpati Plaza Pvt. Ltd. and Ram Avtar Road Constructions Pvt. Ltd. These companies are involved in road construction and real estate development.

**Rating History for the last three years**

Instrument /Facility	Current Rating			Rating History		
	Type	Amount (₹ Crs)	Rating	2018	2017	2016
<b>Fund Based</b>						
Cash Credit BD/HYP	Long Term	20.00*	BWR BBB - (Pronounced as BWR Triple B Minus) Outlook: Stable	NA	NA	NA
<b>Non Fund Based</b>						
Letter of Credit	Short Term	15.00**	BWR A3 (Pronounced as BWR Single A Three)	NA	NA	NA
Bank Guarantee (Sub Limit of LC)		(3.00)				
Total	35.00	INR.Thirty Five Crores Only				

\*Includes proposed CC limits of 7 Crs. \*\* Includes Proposed LC limit of Rs.10 Crs.

**Status of non-cooperation with previous CRA (if applicable)-NA**

**Any other information**

**Key Financial Indicators**

Key Parameters		FY 17	FY 18
Result Type	Units	Audited	Audited
Operating Revenue	₹ Cr	41.74	77.39
EBITDA	₹ Cr	4.47	19.37
PAT	₹ Cr	2.18	15.16
Tangible Net worth	₹ Cr	26.75	41.89
Total Debt/Tangible Net worth	Times	0.47	0.51
Current Ratio	Times	1.64	2.32



**Hyperlink/Reference to applicable Criteria**

[1.General Criteria](#)

[2.Approach to Financial Ratios](#)

[3.Manufacturing Unit](#)

[4.Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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**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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



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