Super Iron Foundry Private Limited

June 15, 2021

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	26.00 (declined from 59.00)	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Short term Bank Facilities	88.10 (increased from 55.10)	IVR A3 (IVR A Three)	Reaffirmed
Total	**114.10 (Rupee one hundred and fourteen crores and ten lakhs only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Super Iron Foundry Private Limited (SIFPL) continues to derive comfort from its established track record of operations and experienced promoters, imposition of anti-dumping duty by key markets on import from competitive country and its healthy order book position indicating near term revenue visibility. The ratings also factor in growth in its revenue with stable profitability parameters in FY21 provisional, moderate leverage indicators coupled with moderate debt protection metrics and significant growth potential available for next year with project completion. However, these rating strengths continues to remain partially offset by susceptibility of its profitability to volatility in raw material prices, strong competitive pressure from other established domestic players and working capital intensive nature of its business. Further, the ratings also note delay in project completion due to nationwide lock down scenario from March,2020 and also considers project stabilisation risk as the project is expected to commence operation from August,2021.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability leading to an improvement in liquidity on a sustained basis
- Improvement in the capital structure with improvement in the overall gearing to below 1x

- Improvement in the operating cycle

Downward factor:

- Any deterioration in scale of operation or moderation in profitability affecting the debt protection metrics and/or liquidity on a sustained basis
- Further elongation of operating cycle impacting the liquidity
- Moderation in the capital structure with deterioration in overall gearing to more than 2x
- More than expected delay in commencing commercial operation

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

SIFPL is looked after by Mr. Abhishek Saklecha and his younger brother Mr. Akhilesh Saklecha. Both the brothers have around 15 years of business experience and looks after the day to day operation along with the support from a team of experienced professional.

Imposition of anti-dumping on import on competitive country

SIFPL gains from imposition of anti-dumping duty on Chinese foundry products by Europe. This apart, China has also launched a "Clean Environment Policy" due to which majority of the foundries are being shut by the government on account of pollution norms. Such changes in regulatory framework and global demand and supply position have helped SIFPL to tap new orders.

Growth in revenue with stable profitability parameters in FY21 (provisional)

The operating income of the company declined from Rs.84.82 crore in FY19 to Rs.74.96 crore in FY20 due to lockdown in last 15 days of FY20, amid covid-19 pandemic. However, in FY21 (provisional), the company booked higher revenue of Rs.104.73 crore, despite lockdown in first two months of FY21, driven by higher orders in hand and higher demand of its product in European countries. EBITDA margin improved from 7.56% in FY19 to 9.04% in FY20 and then to 10.20% in FY21 provisional due to better management of overhead expenses and execution of few higher margin contracts. PAT margin also improved to 2.95% in FY21.

Moderate leverage indicators coupled with moderate debt protection metrics

The capital structure of the company remained comfortable as on March 31 2020. Overall gearing of SIFPL improved from 0.86x as on March 31, 2019 to 0.65x as on March 31, 2020 with accretion of profit and gradual repayment of term debt. However, the same deteriorated to 1.20x as on March 31, 2021 provisional with addition of additional term loan of Rs.26 crore for new plant. The debt protection parameters as reflected by the interest coverage ratio remained comfortable at 2.46x in FY20 (FY19: 2.35x) driven by higher EBITDA. In FY21, it further increased to 3.22x. Further, the Total debt to GCA remains moderate at 7.76 years in FY20 as against 9.47 years in FY19. The same deteriorated to 9.89 years in FY21, with increase in term loan.

Significant potential available for next year with project completion

The company has already installed High Pressure Vertical Green Moulding plant with a capacity of the output 200 moulds / hour in its existing premises. With completion of this project, the installed capacity of the company will increase from 24000 MTPA to 72000 MTPA, opening a door of significant potential for FY22 for SIFPL.

Previously the total cost of the plant was envisaged at Rs.43.20 crore (including margin money of Rs.7.06 crore) to be funded at debt equity ratio of 2:1, which had been increased to Rs.51.36 crore (including margin money of Rs.7.06 crore), funded at debt equity ratio of 1.03:1. The cost overrun has been fully funded through internal accruals. There has also been delay in installation of plant & machinery by almost a year due to worldwide pandemic situation, the company could not import the machinery timely. This apart increase in project cost is also result of getting a machine for automation of work to reduce reliance on labour. At present, the project is completed. Only few approvals like pollution clearance and new electricity connection is pending, which is getting delayed due to ongoing lockdown in West Bengal. The company expects the commercial operation of the plants to get started by first week of August 2021.

Healthy order book position indicating near term revenue visibility

SIFPL has a strong order book position of ~Rs.532.6 crore as on June 11, 2021 to be completed in next 12 to 18 months. This gives a satisfactory near term revenue visibility.

Key Rating Weaknesses

Profitability susceptible to volatility in raw material prices

The major raw-material required for the manufacturing of ductile casting is pig iron, steel scrap, ferro-silico manganese which are highly volatile in nature. SIFPL operates on moderate margins and raw material is one of the major cost drivers. Hence, the profitability is sensitive to adverse movement in prices of finished goods and/or raw materials

Strong competitive pressures from other established domestic players

The industry is riddled with high competition due to presence of several domestic and international players. Intense competition from both domestic and international players is having a negative impact on the profitability of the company.

Working capital intensive nature of business

SIFPL's operation is working capital intensive in nature as it has a policy to maintain high level of inventory for smooth manufacturing operation and need to provide high credit period to its customers in view of intense competition in the industry. The average Cash Credit utilisation also remained high at about ~95% during the past 12 months ended on February 2021. Further, the current ratio remained comfortable at 1.52x as on March 31, 2021 provisional.

Analytical Approach: Standalone

Applicable Criteria:
Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity of the company is expected to remain adequate in the near term. The company has earned a GCA of Rs.6.98 crore as compared to its debt repayment obligation of Rs.0.01 crore in FY21. Further, the Company projected to earn a GCA of ~Rs.16.21 crore to Rs.24.64 crore in FY22-FY24 vis-à-vis its debt repayment obligation of ~Rs.4.80 crore to Rs.7.08 crore. Working capital utilization, however, remained high with average utilisation of about ~94% over the last 12 months ending February 2021 indicating a moderate liquidity buffer.

About the Company

Super Iron Foundry Pvt. Ltd. (SIFPL), was incorporated on July 15, 1988. The company started commercial from 2013 to carry on the business of manufacturing and export of ductile iron casting for Municipal departments, Water Works, and Automobile Segment. With manufacturing facility of 15,000 MTPA, located in West Bengal, SIFPL have been able to export 100% of its product to countries in Europe and Middle East Asia. SIFPL belongs to the Kolkata-based, SIF Group which has Super Iron Foundry (a Partnership Firm into export of Grey Iron castings) and two investment arms-ABI Trading Pvt Ltd (NBFC) and Fairplan Vincon Pvt Ltd (NBFC) as the other Group concerns. Mr. Akhilesh Saklecha and Mr. Abhishek Saklecha are the Directors and key persons of SIFPL.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	74.96	104.73
EBITDA	6.78	10.68
PAT	0.92	3.09
Total Debt	35.27	69.02
Tangible Net worth	54.22	57.73
EBITDA Margin (%)	9.04	10.20
PAT Margin (%)	1.22	2.95
Overall Gearing Ratio (x)	0.65	1.20

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	26.00	IVR BBB-/ Stable Outlook	-	IVR BBB-/ Stable Outlook (March 16, 2020)	-
2.	Fund based facilities	Short Term	83.00	IVR A3	-	IVR A3 (March 16, 2020)	-
3.	Non- Fund Based Facilities	Short Term	5.10	IVR A3	-	IVR A3 (March 16, 2020)	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities	-	-	September 2026	26.00	IVR BBB-/ Stable Outlook
Short Term Fund Based Limits	-	-	-	83.00	IVR A3
Short Term Non-Fund Based Limits	-	-	-	5.10	IVR A3
Total				**114.10**	

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-sifp.pdf