November 16, 2021

SRC Chemicals Private Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – CC	20.00	10.50	[ICRA]BBB- (Positive) reaffirmed; outlook revised from Stable
Short-term Fund-based	15.00	14.00	[ICRA]A3; reaffirmed
Short-term Non-fund Based	60.00	28.95	[ICRA]A3; reaffirmed
Short-term Fund-based – Interchangeable*	(59.00)	(28.95)	[ICRA]A3; reaffirmed
Long-term Fund-based – Term Loan	-	2.47	[ICRA]BBB-(Positive) reaffirmed; outlook revised from Stable
Unallocated Limits – Fund-based/ Non-fund Based	-	39.08	[ICRA]BBB-(Positive)/[ICRA]A3 reaffirmed; outlook revised from Stable
Total	**95.00**	**95.00**	

Instrument details are provided in Annexure-1; Interchangeable with short term non fund based limit*

Rationale

The revision in outlook to positive takes into account the expectation of healthy growth in SRC Chemicals Private Limited's (SRC) turnover following the improved outlook for steel consuming sectors. Further, there has been a significant uptick in the realisations, which will also drive the revenue growth. Further, ICRA expects the company's capitalisation and coverage metrics to improve over the medium term on account of a growth in turnover and sustained profitability. While the company saw a decline in turnover in FY2021 following the pandemic induced weak demand, the surge in demand along with increase in sales realisation from December 2020 has supported the company's top line during the past few quarters. Despite the second wave of the pandemic, the company reported gross sales of Rs. 150.0 crore in 5M FY2022 against Rs. 159.4 crore in H2 FY2021. The rating also takes comfort from SRC's comfortable capital structure and moderate coverage indicators due to limited reliance on external borrowings. The ratings continue to factor the promoter's extensive experience in the industry and the company's established association with reputed customers with a history of repeat orders.

The ratings are, however, constrained by SRC's moderate scale of operations and low profit margins due to the limited value-added nature of its business. The company's revenues have remained susceptible to the cyclicality associated with the steel industry as it derives its entire revenues from the steel sector. Furthermore, its profitability is also vulnerable to foreign exchange (forex) fluctuation risk and movement in raw material prices.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the steel, minerals and ferro alloys industries – SRC is promoted by the Lakhotia family. The key promoter, Mr. Suresh Lakhotia, has an extensive experience in the steel, minerals and ferro alloys industries spanning over four decades.

Reputed customer base – The company's customer base consists of reputed steel manufacturers, namely the JSW Group, Tata Steel Limited and Steel Authority of India Limited, among others. The customer concentration has remained high with top five customers contributing 60-70% of the total revenues in the past two years. Although the customer concentration remains high, the company has been associated with these clients for a long period resulting in repeat orders and mitigating client concentration and counterparty credit risk to an extent.

Comfortable capital structure and moderate coverage indicators – SRC's capital structure has improved as reflected from gearing of 1.30 times as on March 31, 2020 and 0.88 time as on March 31, 2021 on the back of reduction in debt level and accretion to reserves. The total debt of Rs. 40.81 crore as on March 31, 2021 included working capital borrowings of Rs. 28.72 crore, unsecured debt of Rs. 9.05 crore and term loans of Rs. 3.04 crore. With lower debt level, the debt protection metrics also improved in FY2021 as measured by interest coverage of 3.74 times (2.90 times in FY2020) and total debt/operating profit of 4.63 times (5.34 times in FY2020). ICRA expects the credit profile to improve in FY2022 on the back if improvement in profit level and faster realisation of receivables.

Credit challenges

Moderate scale of operations; susceptibility of revenues to cyclicality of end-user steel industry – SRC's products find application in special steels used in the automobile and aeronautics industries. The company's operating income has remained moderate and vulnerable to cyclicality in steel industry. The company's revenues declined in FY2021 and stood at Rs. 221.65 crore against Rs. 299.34 crore in FY2020 due to weak steel demand. However, with uptick in demand for steel, the company's sales improved in H1 FY2022 and the trajectory is expected to continue during the remaining period of FY2022.

Low profitability margins due to limited value-added nature of business – The company's OPM has remained modest due to the low value addition in the nature of operations and highly competitive industry. Given the commoditised nature of its products, volume growth remains critical in maintaining SRC's profitability. The company's profit margin has also remained under pressure in the past due to high logistic cost incurred to procure the raw material for ferrochrome. Nevertheless, ICRA notes that the company has sustained its operating profit margin of around 4% in the past.

Vulnerability of profitability to raw material price movement and forex fluctuation risks – SRC sources its major raw materials like molybdenum oxide and aluminium cans through imports, which currently drive ~55% of its total purchases. With limited export sales and the absence of any hedging mechanism, the company's profitability remains vulnerable to forex fluctuation risks. In addition, the prices of raw materials, especially molybdenum, have demonstrated a high degree of volatility in the past. SRC's operating profit margins, thus remain susceptible to such price variations, which might not be fully passed on to customers due to competitive pricing pressures. The company is, however, protected to an extent as the pricing is formula linked and based on the London Metal Exchange price movement.

Liquidity position: Adequate

The liquidity position is adequate considering the free cash balance of Rs. 9.31 crore as on March 31, 2021 and expected healthy accruals. While the company has already prepaid the Covid emergency line of credit of Rs. 1.9 crore in FY2022, it plans to close the remaining debt of ~Rs. 1.0 crore by the end of the fiscal. The average unutilised working capital limits stood at ~Rs. 6.0 crore during the July 2020 to September 2021 period, with minimal utilisation as on date. In addition, ICRA notes that the company plans to sell a land parcel amounting to Rs. 4.0 crore (of which Rs. 1.0 crore was received as advance) by March 2022, which along with limited capex plans indicate adequate liquidity.

Rating Sensitivities

Positive factors – ICRA could upgrade SRC's rating if it continues to demonstrate growth in its overall scale of operations and profitability. Total Debt/OPBDITA of below 3.0 times on a sustained basis will also remain critical for a rating upgrade.

Negative factors – The outlook can be revised to stable if, lower than expected accruals, or deterioration in working capital cycle materially impacts its liquidity and overall financial profile. Further, rating revision can be triggered by interest coverage remaining below 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

SRC was established in Pune (Maharashtra) as a proprietary concern in 1998 and was later converted to a private limited company in 2002. It is part of the Rajasthan-based SR Group with interests in limestone mining, manufacturing lime, dolomite and ferro alloys along with trading interests in sponge iron, coal and fluorspar. SRC is engaged in manufacturing calcined lime (Quick Lime), ferromolybdenum, ferrochrome and ferro manganese. The company has a limestone processing capacity of 120,000 TPA in Hospet (Karnataka). It also has ferroalloys and flurospar plants with production capacities of 12,000 TPA and 42,000 TPA at Pune and Visakhapatnam (Andhra Pradesh), respectively.

Key Financial Indicators (audited)

Rs crore	FY2020	FY2021
Operating Income (Rs. crore)	299.34	221.65
PAT (Rs. crore)	1.25	4.79
OPBDIT/OI (%)	3.08%	3.87%
ROCE (%)	5.43%	9.21%
Total Outside Liabilities/Tangible Net Worth (times)	1.45	1.04
Total Debt/OPBDIT (times)	5.34	4.63
Interest Coverage (times)	2.90	3.74
DSCR	1.84	2.86

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					16-Nov-2021	15-Oct-2020	05-Mar-2020	11-June-2019	29-Nov-2018
1	Fund-based – CC	Long-term	10.50	-	[ICRA]BBB- (Positive)	[ICRA]BBB - (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Positive); removed from issuer non-cooperating category	[ICRA]BBB- (Stable); ISSUER NON-COOPERATING
2	Fund-based	Short-term	14.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3; removed from issuer non-cooperating category	[ICRA]A3; ISSUER NON-COOPERATING
3	Non-fund Based	Short-term	28.95	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3; removed from issuer non-cooperating category	[ICRA]A3 ISSUER NON-COOPERATING
4	Interchangeable	Short-term	(28.95)	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3; removed from issuer non-cooperating category	-
5	Fund- based – Term loan	Long-term	2.47	0.95	[ICRA]BBB- (Positive)	-	-	-	-
6	Unallocated limits- Fund based/non-fund based	Short-term	39.08	-	[ICRA]BBB- (Positive)/[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – CC	Simple
Fund-based – DRUL/Bill Discounting	Simple
Non-fund Based- LC and BG	Very Simple
Interchangeable	Very Simple
Fund- based – Term loan	Simple
Unallocated limits- Fund based/non-fund based	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank	Cash Credit	NA	-	-	10.50	[ICRA]BBB- (Positive))
HDFC Bank	Term Loan	FY2019	9.25%	FY 2023	2.47	[ICRA]BBB-(Positive)
HDFC Bank	LC Discounting	NA	-	-	5.00	[ICRA]A3
HDFC Bank	DRUL facility	NA			9.00	[ICRA]A3
HDFC Bank	Letter of Credit	NA	-	-	28.50	[ICRA]A3
HDFC Bank	Bank Guarantee	NA	-	-	0.45	[ICRA]A3
HDFC Bank	Short term Interchangeable Limits*	NA	-	-	(28.95)	[ICRA]A3
Not applicable	Unallocated limits	NA	-	-	39.08	[ICRA]BBB-(Positive)/[ICRA]A3

Source: *SRC Chemicals Private Limited, *Interchangeable with short term fund-based limits; Amount in Rs crore*

Annexure-2: List of Entities Considered for Consolidated Analysis – Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 12 4454 5304
sabyasachi@icraindia.com

Prashant Vasisht
+91 12 4454 5322
prashant.vasisht@icraindia.com

Ankit Jain
+91 12 4454 5865
ankit.jain@icraindia.com

Pragya Sharma
+91 22 6114 3454
pragya.sharma@icraindia.com

Himani Sanghvi
+91 79 4027 1500
himani.sanghvi@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches