Rating Rationale

July 04, 2023 | Mumbai

SG Finserve Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.1000 Crore (Enhanced from Rs.500 Crore)**
Long Term Rating	**CRISIL AA (CE) /Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Long Term Rating&	**Provisional CRISIL AA (CE) /Positive (Assigned)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.100 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

& A prefix of 'Provisional' indicates that the rating centrally factors in the strength of specific structures, and is contingent upon occurrence of certain steps or execution of certain documents by the issuer, as applicable, without which the rating would either have been different or not assigned ab initio. This is in compliance with a May 6, 2015 directive 'Standardizing the term, rating symbol, and manner of disclosure with regards to conditional/ provisional/ in-principle ratings assigned by credit rating agencies' by Securities and Exchange Board of India (SEBI) and April 27, 2021 circular 'Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments' respectively by SEBI.
Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook to **'Positive'** from 'Stable' and assigned its **'Provisional CRISIL AA(CE)/Positive'** rating to the enhanced bank loans facilities of Rs 500 crore of the company while reaffirming the ratings of **'CRISIL AA(CE)/Positive/CRISIL A1+'** on the bank facilities of Rs 500 crore and debt instruments of SG Finserve. The change in outlook follows the similar ratings action of the parent, APL Infrastructure Pvt Ltd (AIPL; 'CRISIL AA/Positive/CRISIL A1+').

The 'CRISIL AA (CE)' rating is based on the strength of an unconditional and irrevocable corporate guarantee backed by a defined payment mechanism by the APL Apollo Group entity, AIPL. The rating on certain facilities will remain provisional and will be converted into a final rating upon receipt of the final executed documentation. The guarantee-backed rating factors in the proposed unconditional and irrevocable corporate guarantee by AIPL. AIPL will also monitor the cash flow of SG Finserve to ensure all debt obligations are met on the due date. The debt of SG Finserve is also considered in the credit profile of AIPL.

Further, if there is a devolvement of corporate guarantee, AIPL will be able to honor its obligations. AIPL has sufficient financial flexibility by way of a total stake in APL Apollo Tubes Limited (AATL), the flagship entity of the group to the tune of 28.13%, translating into a market value of Rs 10,300 crore as on June 28, 2023.

SG Finserve is a group company of the APL Apollo group, whose flagship company is APL Apollo Tubes Limited. Currently, the promoters directly hold around ~50.88% stake in the company. The promoters of APL Apollo group acquired SG Finserve in 2022.

The unsupported long-term rating and short-term rating reflect the standalone business and financial risk profiles of SG Finserve along with expectation of strong support from APL Apollo group. Post the acquisition, the promoters have infused Rs 545 crore of equity in the company as on March 31, 2023 and have additional plans to infusing equity to the tune of ~ Rs 150 crore in the next round of equity infusion which is expected to complete in first half of fiscal 2024.

SG Finserve, an NBFC, was started to cater to the funding requirements of the dealers of APL Apollo Tubes in its first phase of growth plans. Further, SG Finserve also started funding the vendors of APL Apollo Tubes. This is expected to support the overall working capital cycle of the flagship entity, APL Apollo Tubes. In the next phase of growth, SG Finserve intends to cater to the distributor network of the dealers. The company started it operations in September 2022 and has till March 31, 2023 has cumulatively since inception disbursed Rs 6444 crore with a total cumulative collections of Rs 5469 crore. The AUM as of March 31, 2023 was Rs 975.5 crores. The delinquencies remain nil. The strategic importance of SG Finserve to the overall group therefore remains very high. Further, the group will extend support to SG Finserve in terms of details around the dealer network which would form a critical component of the underwriting process as well as enforce stop supply in the event of any delay from the network of APL Apollo. CRISIL Ratings expects managerial, operation and financial support to SG Finserve to continue over the medium term.

Analytical Approach

CRISIL Ratings has analysed the standalone business and financial risk profiles of SG Finserve along with expectation of strong support from APL Apollo group. The APL Apollo group comprises of the flagship operating company APL Apollo Tubes Limited (AATL) (rated: CRISIL AA/Stable/CRISIL A1+) and its holding company AIPL.

The ratings are based on CRISIL Ratings' criteria for rating instruments backed by guarantees. The 'CE' (credit enhanced) suffix reflects the payment structure, which is designed to ensure full and timely payment to lenders on account of the corporate guarantee by AIPL.

Key Rating Drivers & Detailed Description

Strengths:

- **Continuing, unconditional and irrevocable corporate guarantee by AIPL**

  The credit-enhanced ratings of SG Finserve are based on an unconditional, continuing, and irrevocable guarantee from AIPL. The payment structure is designed to ensure full and timely payment to the lender. The proposed guarantee also contains clear mechanism for ensuring repayments to the lenders on the due date by way of well-defined structure. The proposed structure entails that SG Finserve, fund the repayment account atleast at t-2 (t being the due date) days prior to the due date, failing which the guarantee will be invoked by lenders and AIPL will have to fund the account by t-1, thus ensuring the repayments happen on due date. Effectively, the guarantor, AIPL, will pay, on the due due date, any amount due and payable by SG Finserve in relation to these instruments, in case of any shortfall in account balance one day prior to debt repayment date by SG Finserve. The guarantee and undertaking together cover the principal, interest and other amounts payable under the loan. The provisional rating is based on the confirmation by the client to share the required documents in line with the structure submitted to CRISIL Ratings, post which the provisional rating will be converted into a final rating.

- **Strategic importance to the APL Apollo group**

  APL Infrastructure's total stake in APL Apollo stands 28.13%, translating into a market value of Rs 10,300 crore as on June 28, 2023. Market value of the stake is healthy compared to its total debt cap of around Rs 1,160 crore (Rs 160 crore as on March 31, 2023, and corporate guarantee of Rs 1,000 crore provided to its group company- SG Finserve Limited- Rated CRISIL AA(CE)/ Positive/ CRISIL A1+) leading to a cover of 9 times.

  APL Apollo continues to be the market leader in the ERW pipes segment with a current capacity of 41 lacs and revenue of Rs 16,000 Crore. In the fiscal 2023, APL Apollo registered revenue growth of ~24%, primarily driven by 30% volume growth. Earnings before interest, tax, depreciation, and amortisation (Ebitda) per tonne improved to ~Rs 4,500 from ~Rs 3,000 per tonne pre-Covid, given addition of value-added products to the portfolio. Financial risk profile remained strong, backed by healthy capital structure as indicated by debt to Ebitda ratio of 0.8 time for fiscal 2023. Debt protection metrics remained strong interest coverage ratio of above 15 times in fiscal 2023.

  SG Finserve will primarily be engaged in the activities of channel financing for the dealers of AATL and further expand to offering the same to the retailers. Further, the NBFC will also provide bill discounting facilities to the creditors of AATL. The facilities offered will be for a tenor of upto maximum 90 days with an ROI of 12% to 15%. In addition to the proposed corporate guarantee to be given by AIPL, to SG Finserve, the NBFC will also be benefitted by way of Letter of Comfort from AATL. SG Finserve has started its operations since September, 2022 and has disbursed over Rs 6444 crore till March 31, 2023. CRISIL Ratings believes that the NBFC will benefit from the comfort provided by the group entities and promoters in the form of cost of borrowing.

  SG Finserve will have strong operational synergies with AATL and its subsidiaries and will only lend to the dealers and vendors of AATL in the near term. Also, the entity will share the same treasury team with AATL and since the borrower base for SG Finserve is linked to AATL there will be negligible marketing expense thus reducing the overall operating expenses. AATL's sales and marketing team will also look after the collections of SG Finserve in the current stage of operations. SG Finserve will also integrate its systems with AATL to get timely data on the sales done to the dealers and the overall outstanding, also a stop-supply arrangement will be maintained, wherein the supply to the dealer will stop in case there is an overdue. Even in case of loans to retailers, there will be system integration and stop supply arrangements with the dealers wherein the dealers will also provide an FLDG of upto 20% for the loans given by SG Finserve. Further, the promoters over the long term will continue to hold atleast ~60% stake in the NBFC.

- **Healthy capitalisation metrics for the current scale of operations**

  Post the acquisition, the promoters have infused Rs 545 crore of equity in the company till March 31, 2023 and have additional plans to infusing equity to the tune of ~ Rs 150 crore in the next round of equity infusion which is expected to complete in first half of fiscal 2024. The equity round is expected to be led by the promoters. Over the longer term, the promoters are expected to continue to hold majority and controlling stake in the company. On a steady state basis, the gearing metrics for the company are expected to remain under 3 times. CRISIL Ratings expects timely capital infusion from promoters to continue to support growth and in the event of distress.

Weakness:

- **Nascent stage of operations**

  SG Finserve has recently started its operations from September 1, 2022. In the short period the entity has made disbursements of over Rs 6444 crore till March 31, 2023. While the company has a vintage of these borrowers from AATL but on the standalone basis, SG Finserve is at a very nascent stage of operations and the systems are processes are still being developed and established.

  SG Finserve will primarily be engaged in the activities of channel financing for the dealers of AATL and further expand to offering the same to the retailers. Further, the NBFC will also provide bill discounting facilities to the creditors of AATL. The facilities offered will be for a tenor of upto maximum 90 days with an ROI of 12% to 15%. Further, AATL has a

vintage of these dealers of over 3 decades and for the last decade the bad debts within AATL have remained within 0.2%. CRISIL Ratings believes that the NBFC will continue to benefit from the established track record of the group. Consequently, delinquencies are expected to remain under control. However, given the lending segment of the company and nascent stage of business the company will be exposed to concentration risk. Any higher than anticipated uptick in the asset quality metrics will remain a key monitorable.

Liquidity: Strong

SG Finserve has a free cash balance of Rs 79.82 crore as on September 29, 2022 with no debt repayment obligation. SG Finserve will be raising short-tenured debt in future and will also be lending for a short tenor of 30 to 90 days. CRISIL Ratings believes that the client will keep liquidity equivalent to two months of debt repayment requirements on an on-going basis.

Outlook: Positive

CRISIL Ratings believes SG Finserve will continue to receive strong support from the APL Apollo Group. The rating will remain sensitive to any change in CRISIL Ratings' rating on AIPL or APL Apollo Tubes

Rating Sensitivity factors

Upward Factor

- Upward change in the credit risk profile of APL Apollo Tubes or AIPL by one notch or higher could have a similar impact on the ratings of SG Finserve

Downward factors:

- Downward change in the credit risk profile of APL Apollo Tubes or AIPL by one notch or higher could have a similar impact on the ratings of SG Finserve
- Non-adherence to the terms of transaction structure/payment mechanism

Adequacy of credit enhancement structure

The guarantee that is proposed to be provided by AIPL is unconditional and irrevocable and will cover the entire rated amount for bank loans. The payment structure is designed to ensure full and timely payment to the lender. The proposed guarantee also contains clear mechanism for ensuring repayments to the lenders on the due date by way of well-defined structure. The proposed structure entails that SG Finserve, fund the repayment account atleast at t-2 (t being the due date) days prior to the due date, failing which the guarantee can be invoked by lenders and AIPL will have to fund the account by t-1, thus ensuring the repayments happen on due date.

Unsupported ratings: CRISIL A+

CRISIL Ratings has introduced the suffix CE for instruments having explicit credit enhancement feature in compliance with the Securities and Exchange Board of India circular dated June 13, 2019.

Key drivers for unsupported ratings

For arriving at the unsupported ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of SG Finserve. CRISIL Ratings has also applied its group notch-up framework to factor in the extent of support available from APL Apollo Tubes group.

The ratings factor in SG Finserve strategic importance to the APL Apollo group's flagship company, APL Apollo Tubes and the strong financial flexibility of the promoters. The ratings also reflect the high operational linkages with APL Apollo Tubes since SG Finserve will be catering to the dealers and suppliers of the company. However, the rating is constrained by nascent stage of operations.

Additional disclosures for the provisional rating

CRISIL Ratings is yet to receive the following documents and understands from the issuer that the same are in the process of being executed shortly:

- Executed guarantee deed
- Loan agreement

The provisional rating shall be converted into a final rating after receipt of transaction documents duly executed within 90 days from the date of issuance of the instrument.

The final rating assigned after conversion shall be consistent with the available documents. In case of non-receipt of the duly executed transaction documents within the above-mentioned timelines, CRISIL Ratings may grant an extension of up to 90 days, in line with its policy on provisional ratings.

Rating that would have been assigned in the absence of the pending documentation

In the absence of pending documentation considered while assigning provisional rating as mentioned above, CRISIL Ratings would have assigned a rating of 'CRISIL A+'.

Risks associated with the provisional rating:

The 'Provisional' prefix indicates that the rating is contingent on occurrence of certain steps or execution of certain documents by the issuer, as applicable. If the documents received and/or completion of steps deviate significantly from the expectations, CRISIL Ratings may take an appropriate action, including placing the rating on watch or changing the rating/outlook, depending on the status of progress on a case to case basis. In the absence of the pending steps / documentation, the rating on the instrument would not have been assigned ab initio.

About the Company

SG Finserve Limited (SG Finserve), originally established in 1994, has an NBFC license and is also registered as a SEBI broker. Earlier, SG Finserve provided a wide range of services associated with Broking, Distribution, Investment Research, Online Trading, Wealth management, Investment Banking and Insurance. However, the company had ceased to do any

business in the recent past. The promoters, Mr. Rahul Gupta and Mr. Rohan Gupta acquired 56.25% stake in SG Finserve on August 20, 2021, post which an open offer was made which concluded on July 22, 2022.

About the Guarantor

Operating since 2006, APL Infrastructure is a holding company with limited operations in the APL Group. The company derives the majority of its business from trading of shares and steel pipes, as well as dividend from subsidiaries and rental income. APL Infrastructure is a part of the APL Apollo group. The APL group has been in business for over 30 years.

About the Group

Established in 1986 in Delhi National Capital Region, APL Apollo is the largest and one of the fastest-growing ERW steel tubes/structural products manufacturers in India, with a current production capacity of 41 lakhs MTPA. The company is a part of the Sudesh group and is promoted by Mr Sanjay Gupta.

Currently, APL Apollo has 11 manufacturing facilities, with 3 plants in Sikandrabad (Uttar Pradesh); 1 each in Hosur (Tamil Nadu), Murbad (Maharashtra), Hyderabad (Telangana), Dujana (Uttar Pradesh); and 2 plants in Raipur (Chhattisgarh) and Bangalore (Karnataka). It has also established a wide 3-tier distribution network with around 800+ dealers.

Key Financial Indicators

As on/for the period ended	Unit	March 2023	March 2022	March 2021
Total assets	Rs crore	1079	9.0	8.2
Total income	Rs crore	42	2.2	2.4
PAT	Rs crore	18	0.8	1.6
90+ dpd	%	0	-	-
Gearing	Times	0.9	0.0	0.0
Return on managed assets	%	3.4	9.3	20.3

List of covenants

- The Guarantor irrevocably and unconditionally:
- guarantees that at least two (2) Working Day prior to any Payment Date, borrower has to deposit the Payment Account an amount equivalent to the amount to be paid to the Lender on the Payment Date, and if borrower will not fund the payment account till 6 pm on two (2) Working Day prior to any Payment Date, guarantee will be invoked and in that case guarantor has to fund the account a day prior to the actual payment date, and guarantor will fund the Payment Account an amount equivalent to the amount to be paid to the Lender on the Payment Date.
- Notwithstanding anything contained in the guarantee deed, the non-issuance of demand notice or the lender not invoking the guarantee shall not absolve the obligations of the guarantor to pay its obligation on the payment date and even if bank has not issued the demand notice / invoked the guarantee as per clause (b) above, the guarantor shall pay its obligation forthwith and in any case on or before the payment date in the event of failure on the part of the issuer/borrower in repaying the same to the bank (acting for itself and on behalf of and for the benefit of the lender) on payment date/due date.
- The Guarantor shall at all times until the expiry of the Final Settlement Date, except as may otherwise be agreed in writing by the lender, undertake to ensure that all loans from shareholders including, without limitation, any payments in relation thereto shall at all times until the expiry of the Final Settlement Date be subordinated to the lender;
- Without the prior written approval of the lender (acting in accordance with Approved Instructions), the Guarantor shall not, at all times until the Obligations are outstanding, (whether directly or indirectly), change the name of the Issuer, without the consent of the lender (acting in accordance with the Approved Instructions); and undertake any Change of Control.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Working Capital Demand Loan	NA	NA	NA	425	NA	CRISIL AA(CE)/Positive
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	75	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	500	NA	Provisional CRISIL AA (CE) /Positive
NA	Commercial Paper	NA	NA	7-365 Days	100	Simple	CRISIL A1+

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT/ST	1000.0	Provisional CRISIL AA (CE) /Positive,CRISIL AA (CE) /Positive / CRISIL A1+	20-03-23	CRISIL AA (CE) /Stable / CRISIL A1+	21-10-22	Provisional CRISIL AA (CE) /Stable / CRISIL A1+		--		--	--
			--	13-01-23	Provisional CRISIL AA (CE) /Stable / CRISIL A1+		--		--		--	--
Commercial Paper	ST	100.0	CRISIL A1+	20-03-23	CRISIL A1+		--		--		--	--
			--	13-01-23	CRISIL A1+		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	**500**	**Not Applicable**	**Provisional CRISIL AA (CE) /Positive**
Proposed Short Term Bank Loan Facility	**75**	**Not Applicable**	**CRISIL A1+**
Working Capital Demand Loan	**50**	**Bank of Baroda**	**CRISIL AA (CE) /Positive**
Working Capital Demand Loan	**100**	**YES Bank Limited**	**CRISIL AA (CE) /Positive**
Working Capital Demand Loan	**225**	**HDFC Bank Limited**	**CRISIL AA (CE) /Positive**
Working Capital Demand Loan	**50**	**Axis Bank Limited**	**CRISIL AA (CE) /Positive**

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for rating instruments backed by guarantees
Criteria for Notching up Stand Alone Ratings of Companies based on Group Support

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Ajit Velonie Senior Director **CRISIL Ratings Limited** B:+91 22 3342 3000 ajit.velonie@crisil.com Rahul Malik Associate Director **CRISIL Ratings Limited** B:+91 22 3342 3000 rahul.malik@crisil.com Rikin Kartik Shah Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 Rikin.Shah@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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