Shyam Metalics and Energy Limited

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	-	-	Reaffirmed at CARE AA-; Positive (Double A Minus; Outlook: Positive) and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A1+ (A One Plus) and Withdrawn
Total bank facilities	**0.00 (₹ Only)**		
Commercial paper (Carved out)*	-	-	Withdrawn

Details of facilities/instruments in Annexure – 1
*carved out of the sanctioned working capital limits of the company

Detailed Rationale & Key Rating Drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE AA-; Positive/CARE A1+' [Double A Minus; Outlook: Positive/A One Plus] assigned to the bank facilities of Shyam Metalics and Energy Limited (SMEL) with immediate effect. The above action has been taken at the request of SMEL and 'No Objection Certificate' (NOC) received from the lenders that have extended the bank facilities rated by CARE Ratings.

CARE Ratings has also withdrawn the rating assigned to the commercial paper issue of SMEL with immediate effect, at the request of the company and as there is no outstanding under the said issue.

The ratings assigned to the bank facilities of SMEL continue to derive comfort from the experienced promoters with long track record of operations in the iron and steel industry and its semi-integrated nature of operations with strategically-located plants in proximity to coal and iron ore mines. The ratings take note of its diversified product mix having satisfactory operational efficiency and strong operating performance in FY22 (refers to the period from April 1 to March 31), albeit moderation witnessed in H1FY23 due to decline in realisations.

The ratings also factor in the comfortable capital structure and debt coverage indicators on a consolidated basis which are expected to remain comfortable despite the planned capex as the capex plans are modular in nature and expected to be funded through internal generations and existing liquidity.

Going ahead, with ramp-up of operations, CARE Ratings believes that the company will continue to report steady growth in the revenues in the medium term along with healthy operating margins owing to management's intent to enhance the sales contribution from high value-added products of Thermomechanical treatment (TMT) bars, wire rods, ductile iron (DI) pipes, structural products, conversion of aluminium foil, and ferro alloys.

The ratings, however, continue to remain constrained by the company's exposure to the cyclicality inherent in the steel industry, susceptibility of the operating margins to volatility in input costs and the implementation risk associated with the ongoing capex.

Outlook: Positive

The outlook on the long-term rating of SMEL remains 'Positive' on the expectation of improvement of operating performance of the company with on-streaming of the capacities which are currently under project stage resulting in improvement in return ratios and continued healthy debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: The Shyam Metalics group including SMEL and its key subsidiary, Shyam Sel and Power Limited (SSPL), promoted by Mr Mahabir Prasad Agarwal, started trading of steel products in 1981. In 1991, the group ventured into manufacturing of steel products and commenced production of billets in 1996. Over the years, the group has expanded its steel manufacturing capacities and integrated its operation by adding products across the value chain of long steel products.

Semi-integrated nature of operations: The manufacturing operations of SMEL are semi-integrated having manufacturing facilities of both intermediate products (backward integration) like pellets, sponge iron, billets and value-added end-products like TMT bars, wire rods & structural for the end-user segment. The company also has coal washery along with captive power plant and waste heat recovery unit which enable cost efficiencies across the value chain. The company has captive power capacity to meet around 80% of its power requirements.

In the expansion plan, the company has proposed to introduce new product of DI pipes which will also be integrated with set up of pig iron facility. The commissioning of said capacities will further expand the footprint of the company in the overall steel

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

industry.

Location advantage and raw material linkages: The iron and steel manufacturing facilities of the group (in Jamuria and Mangalpur, West Bengal and Sambalpur, Odisha) are located in proximity to the sources of key raw materials, iron ore and coal, which lead to low landed cost of raw materials. Furthermore, its own captive railway sidings also support in saving of freight and overall procurement cost. The group has long-term linkages with Central Coalfields Limited for coal. Long-term linkages and strong relations with suppliers ensure raw material security to certain extent.

Diversified product mix with satisfactory operational efficiency: The company has a diversified product mix with multiple points of sale across the value chain including pellets, sponge iron, billets, TMT bars, wire rods and structural products as well as ferro alloys. TMT and structural products contributed the most, around 37% of the overall consolidated revenue in FY22, while ferro alloys contributed around 19% of the overall revenue. Other products such as pellets, sponge iron and billets contributed in the range of 10%-20%. The scale of operations and product diversification is expected to increase further in the medium term with the ongoing expansion in the Jamuria Plant. The capacity utilization of all the products continued to remain satisfactory over the last four fiscals (FY19-FY22) with ferro alloys plant operating at almost 100% capacity.

Strong operating performance of the company during FY22: During FY22, on a consolidated level, the total operating income (TOI) improved significantly by 66% y-o-y on the back of increased sales realizations. The average sales realization increased from ₹19,948/MT in FY21 to ₹31,606/MT in FY22 on account of significant increase in steel prices and ferro alloys. However, in H1FY23, with decline in the realisation of steel products, the profitability for FY23 is expected to be lower.

The significant increase in realisation and increase in sales volume of most of the products led to increase in PBILDT margins from 21.70% in FY21 to 24.54% in FY22 backed by improved blended PBILDT per tonne from ₹4,537 in FY21 to ₹8,053 in FY22.

In H1FY23, TOI witnessed a growth of 27% y-o-y as compared with H1FY22. However, PBILDT margin witnessed decline in H1FY23 compared with H1FY22 on account of both increase in cost of material as well as power cost.

Comfortable capital structure and debt coverage indicators: The consolidated capital structure of the company continues to remain comfortable with overall gearing ratio of 0.22x as on March 31, 2022 as against 0.29x as on March 31, 2021 despite increase in total debt due to higher acceptances. The interest coverage ratio also remained comfortable at 110.94x in FY22 (21.94x in FY21) on account of both increase in PBILDT and reduction in interest costs. With significant improvement in profitability, the debt coverage indicators of the company witnessed an improvement with TDGCA improving from 0.98x as on March 31, 2021 to 0.61x as on March 31, 2022 with significant increase in GCA.

Going forward also, the capital structure and debt coverage indicators are expected to improve and remain comfortable with no plans of the company to avail new term debt for its capex.

Stable demand outlook: Going forward, domestic steel demand is likely to grow in high-single digits, backed by various measures such as the increase in government capex in the Union Budget 2022-23; infrastructure push towards seven growth engines – roads, railways, airports, ports, mass transport, waterways, and logistic infra; the Pradhan Mantri Awas Yojana (PMAY) scheme; and the Jal Jeevan Mission. Apart from these, a revival in economic activities will also support domestic steel consumption and will aid steel production in India. However, there has been a moderation in steel prices both, globally and domestically, which will result in the normalisation of high spreads witnessed over the past couple of years.

Key rating weaknesses

Profitability susceptible to volatility in the raw-material prices: The raw material is the largest component of total cost of sales of steel products, accounting for about 83% in FY22 (76% in FY21). The major raw material procured by the company includes commodities like iron ore, iron ore fines, coal, pig iron, manganese ore and coke, the prices of which are volatile in nature. Further the company procures all such raw materials mostly at prevailing market prices.

The prices of major raw materials, (iron ore & coal) as well as finished goods (sponge iron) have witnessed high volatility in the past. Since raw material is the major cost driver and raw material prices as well as finished goods prices are volatile in nature, the profitability margin of the company is susceptible to input price fluctuation. Though the prices of finished goods move in tandem with raw material prices, there is a time lag which exposes the company to volatility risk.

Cyclical nature of steel industry: The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates, and seasonal changes in the demand and supply conditions in the market. Apart from the demand-side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion impact the responsiveness of the supply-side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to a demand-supply mismatch. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to the volatility of the steel industry.

Risks associated with expansion plans: As per the earlier envisaged plan, the group planned to undertake expansion projects to increase its aggregate production capacity from 5.71 MT to 11.64 MT by 2025, thereby ramping up the capacity by 5.9 MT. Furthermore, the group had also planned to commission an aluminium foil rolling mill at Pakuria, West Bengal wherein project cost of around ₹424 crore was to be incurred. The total project outlay was expected to be around ₹3,000 crore.

The group has increased its scope of expansion and plans to increase its capacity to 14.49 MT (increase in scope by 2.85 MT in March 2022) with additional capex of around ₹990 crore announced in March 2022.

The total project cost (including aluminium foil rolling mill) is estimated at ₹3,950 crore out of which the group has already incurred ₹2,219 crore till September 30, 2022. The aluminium foil rolling mill became operational in Q4FY22. The group has already increased its capacity to 8.9 MT by September 30, 2022 and balance 5.59 MT is yet to be implemented. The company remains exposed to the pre and post project implementation risk.

Liquidity – Strong

The liquidity position of the company (at consolidated level) remains strong with company expected to generate sufficient cash accruals vis-à-vis debt repayment obligation of ₹19 crore and estimated capital outlay through internal accruals of around ₹1,216 crore in FY23. The liquidity is further supported by free cash and liquid investments of around ₹973 crore as on March 31, 2022.

Analytical approach: Consolidated

While arriving at the rating, consolidated financials of SMEL have been considered which includes SSPL (wholly owned subsidiary) and eleven other subsidiaries and step-down subsidiaries, three associates and one JV which are mainly investment companies with no major operations. Both SSPL and SMEL are engaged in similar business under common management and exhibit operational linkages & cash flow fungibility.

The list of entities whose financials have been consolidated are mentioned in **Annexure 6**.

Applicable criteria

Policy on Withdrawal of Ratings
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Consolidation
Rating Outlook and Credit Watch
Short Term Instruments
Steel
Rating Methodology-Manufacturing Companies

About the company

The Shyam Metalics group which is promoted by Mahabir Prasad Agarwal and is mainly engaged in manufacturing of iron & steel products and ferro alloys. The group started trading of steel products in 1981 and ventured into manufacturing of steel products through Shyam Sel and Power Limited (SSPL) in 1991. Over the years, SSPL integrated its operation by adding products/facilities across the value chain of long steel products (i.e. ferro alloys, pellet, sponge iron, billet, TMT bars/structural products and captive power plant). SSPL's manufacturing facilities are located in Burdwan district (Jamuria and Mangalpur) of West Bengal.

The group expanded its operation in Odisha through SMEL in 2002. SMEL is also semi-integrated and has manufacturing facilities for ferro alloys, pellet, sponge iron, billet, TMT bars/ structural products. Furthermore, both SSPL and SMEL have their own railway sidings.

Brief Consolidated Financials of SMEL (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total Operating Income	6315.43	10469.54	6,308.40
PBILDT	1370.63	2569.31	850.17
PAT	843.54	1724.18	524.76
Overall gearing (times)	0.29	0.22	NA
Interest coverage (times)	21.94	110.94	39.14

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term loan		-	-	-	0.00	Withdrawn
Non-fund-based - LT-Bank guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Commercial paper-Commercial paper (Carved out)		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	-	-	-	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (17-Dec-20)	1)CARE A1+ (10-Oct-19)
3	Fund-based - LT-Term loan	LT	-	-	-	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)
4	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)
5	Non-fund-based - LT-Bank guarantee	LT	-	-	-	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)
6	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (17-Dec-20)	1)CARE A1+ (06-Mar-20)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities
Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT-Bank guarantee	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Commercial paper-Commercial paper (Carved out)	Simple

Annexure-5: Bank Lender Details
To view the lender wise details of bank facilities please click here

Annexure 6: List of entities forming part of consolidated financials (as on September 30, 2022):

Name of company	Relationship	% holding
Shyam Sel & Power Limited	Subsidiary	100.00
Whispering Developers Pvt Ltd	Step-down subsidiary	67.57
Taurus Estates (P) Ltd	Step-down subsidiary	89.29
Shyam Energy Limited	Step-down subsidiary	87.12
Meadow Housing Pvt Ltd	Step-down subsidiary	71.43
Hrashva Storage & Warehousing (P) Ltd	Step-down Subsidiary	99.90
Shree Venkateshwara Electrocast Pvt Ltd	Step-down subsidiary	90.00
Platinum Minmet Pvt Ltd	Step-down subsidiary	99.85
S. S. Natural Resources Pvt Ltd (acquired on May 23, 2022)	Step-down subsidiary	
Ramsarup Industries Limited (acquired on May 22, 2022)	Step-down subsidiary	
Shree Sikhar Iron & Steel Pvt Ltd	Step-down subsidiary	99.91
Nirjhar Commodities (P) Ltd	Step-down subsidiary	58.00
Kecons Tradecare (P) Ltd	Associate	50.00
Meghna Vyapaar (P) Ltd	Associate	33.51
Kolhan Complex (P) Ltd	Associate	41.28
MJSJ Coal Limited	JV	9.00

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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