Steel Exchange India Limited

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short Term Bank Facilities	40.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**50.00 (₹ Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Steel Exchange India Limited (SEIL) are tempered by history of default albeit regular debt repayment track record for more than six months, moderate debt coverage indicators, profitability susceptible to volatility in raw material prices, stretched liquidity profile, significantly higher cost of borrowing, cyclicality associated with the steel industry. The ratings however derive comfort from established track record and vast experience of promoters in steel industry, infusion of funds by way of compulsory convertible debentures (CCD) thereby strengthening company's net worth base, improving trend of total operating income FY19-FY22 (FY refers April 01 to March 31), established brand name with diversified product portfolio and customer base.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability to replace high-cost debt with low-cost funds
- Ability to avail necessarily working capital limits
- Steady growth in TOI while maintaining PBILDT margin above 9% on a sustained basis.
- Significant improvement in liquidity and coverage indicators

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any significant decline in TOI and profits, going forward.
- Working capital cycle stretching to beyond 120 days there by impacting the liquidity position of the company

Detailed description of the key rating drivers

Key Rating Weakness

History of default albeit delay free track record for more than six months

SEIL had been facing liquidity issues due to AP State division, Power plant PPA issue and Steel Industry downturn which resulted in delays in debt servicing. The company had requested its lenders for debt restructuring. Subsequently, during Jan. 2021 all its bankers under consortium banking arrangement led by SBI agreed for OTS (one time settlement) and company repaid all its outstanding bank debt post OTS by raising NCDs amounting to Rs. 382 crore from Edelweiss. Towards OTS the company paid Rs 510 crore and settled the dues of all its lenders during Jan, 2021. However, during Oct-Nov 2021, there was a delay observed towards repayment of NCD interest obligation primarily due to miscommunication and technical reasons. Nevertheless, the debt repayment track record for past six months (i.e From Dec-2021 to May-2022) is regular. Also, the conduct of cash credit account with bank is satisfactory.

High-cost debt, moderate coverage indicators

The company is paying a coupon rate of 22.5% on the existing NCDs. The high interest obligation therefore has been impacting the accruals and liquidity of the company. The coverage indicators remained moderate marked by total debt/GCA at 8.71x (PY:2.73x) in FY22 and PBILDT interest coverage at 1.20x in FY22 primarily driven by high interest cost. The ability of the company to refinance these existing NCDs with a low-cost debt remains critical from credit and rating perspective.

Profitability susceptible to volatility in raw material prices

The major raw materials for SEIL are coal and iron ore constituted around 68% of the total operating income for FY22 (PY: 64%), thus, exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins.

Moderate operating cycle

The operating cycle of the company improved over the period i.e., from 262 days in FY18 to 71 days in FY22 on account of liquidation of old stock (coal and scrap). The company normally receives payment from its customers within 30 days and sometimes provides extended credit period of 45-60 days to certain clients. The company makes the payment to its creditors (NMDC and Singareni Collieries Company Limited) on cash basis, and when the company purchase the coal from any other

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

dealer/traders, it avails the credit of 30-45 days. The inventory holding period of the company, though improved, remained high at around 78 days in FY22 (175 days in FY21).

Cyclicality associated with the 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 supply side to demand movements. This results in several steel projects bunching up and coming on stream simultaneously leading to demand-supply mismatch which has a bearing on volumes and prices.

Liquidity: Stretched
The company has tightly matched accruals to meet its repayment obligation. The company has been majorly dependent on promoters and investors to infuse funds for operational purposes and to facilitate debt repayment obligation. The company has a sanctioned working capital limits of Rs 50 crore and would require additional working capital for its growing scale of operations. Also, refinancing its NCDs with low cost debt will help the company to improve its liquidity position. Nevertheless, promoters have brough in funds and CCDs have been raised to support the company's operational needs.

Key Rating Strengths
Vast experience of promoters and established track record in steel industry
SEIL is the flagship company of the Vizag Profiles group. The Chairman and Managing director, Mr B Satish Kumar is well qualified and possesses over three decades of experience in steel and related industries. The Joint Managing Directors, Mr.B.Ramesh Kumar, who is a well qualified technocrat takes care of the entire plant operations and Mr B Suresh Kumar also has over two decades of experience in steel sector and takes care of marketing and development of dealership-network. The company is also supported by other directors Mr V V Krishna Rao and Mr B Suresh, who have more than a decade of experience in the manufacturing industry. Mr Satish is assisted by a team of professionals who are responsible for handling the key functional areas and have experience in their respective fields for more than two decades.
The other group companies promoted by the promoters of SEIL are Vizag Profiles Private Limited, Umashiv Garments Private Limited, Simhadri Wires Private Limited, Simhadri Pellets India limited, Satyatej Vyaapar Private Limited, SAWP Steel Limited, VPL Integral CFS Private Limited and Vijayalakshmi Resources LLP.

Improvement in scale of operations during review period albeit fluctuating profitability margins
The company reported total operating income of Rs.1099.45 crore in FY22 against Rs.898.82 crore in FY21, registering y-o-y growth of 22% led by overall improved sales realisation and repeated orders from the established customers. The company reported operational and net loss during FY18 and FY19 on account of sluggish demand coupled with increased prices which resulted in under absorption of overheads. Nevertheless, with improved sales realisation, the company earned profits and the PBILDT and PAT margin of the company remained at 9.65% and 10.59% respectively in FY22. The sales realisation of TMT bars improved from Rs.39273 per MT in FY19 to Rs.51725 per MT in FY22.

Improved capital structure, raising money through CCDs
The capital structure of the company has been improving over the years. The company has been strategically moving from debt based funding to equity based funding. Overall gearing ratio remained at 0.82x as on March 31, 2022 (PY:5.61x) on account of increase TNW with infusion of equity and funds in form of CCDs. During November 2021 (FY22), Vizag Profiles Private Limited (Rs. 124.41 crore) and Vishwa Samudra Holding Private Ltd (Rs.45.67 crore) infused funds in SEIL in form of CCD's (Compulsorily Convertible Debentures) amounting to Rs. 170.08 crore.

Diversified product portfolio, established brand name
SEIL has a wide range of products both in the manufacturing and trading division which includes rebar& wires, billets & ingots, sponge iron and steel scrap among others. Apart from the aforementioned, the company also generates revenue from sale of by-products such as coal fines, iron ore fines, etc. SEIL has a diversified product portfolio with flexibility to change its product mix to adapt to the changing demand from the end user industry. The company generates about 60% of its total income from its top 10 clients indicating moderate client concentration risk.
The products of SEIL are sold under the brand name 'Simhadri'. The brand has an established presence in the market especially in South India and is one of the largest brand in TMT bars.

Location advantage with railway Siding and proximity to sea port
The facility of the company located at State & National Highways connect to Chennai, Hyderabad, Kolkata, Bhubaneshwar & Raipur. Visakhapatnam & Gangavaram Ports and their allied logistics & container facilities are in the vicinity.The Visakhapatnam International Airport is 35 Kms from the plant.Captive Railway Siding with 2 Platforms. Situated on the Bailadila – Kirandul Line. Furthermore, the company has a regular tie up with NMDC for 3 years renewable on mutual consent for procuring iron ore and the Singareni Collieries Company Ltd, Andhra Pradesh are linked directly from the mines by railway. Apart from domestic coal, the company also procures imported coal from South Africa, Australia, etc through several reputed International importers of India on regular basis and at relatively competitive rates.

Stable industry outlook:
The steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a year-on-year (y-o-y) basis in FY22. CareEdge believes the medium-term steel demand will continue to be robust due to the government's infrastructure push and increased investments amid an overall rebound in the Indian economy. Steel exports remained robust for the third straight year and increased by 25.1% during FY22 after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry, an uptrend in global steel prices and higher demand from European nations led to the increased shipments from India. International steel prices were on an uptrend and rose significantly to upwards of USD 1,200 per tonne in March 2022 due to the geopolitical tensions around Russia. Increased international steel prices led to significantly higher export volumes, which in turn led to an increase in domestic steel prices. Given the rise in steel, prices have an adverse impact on infrastructure push and a secondary impact on inflation, the government, in May 2022, imposed a 15% export duty on a range of finished steel products - making exports less attractive. Also, the import duty on various raw materials (like coking coal, iron-ore, ferro-nickel) was reduced. This will likely improve domestic steel availability as well as soften the domestic steel prices. Huge scope for growth is offered by India's comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy On Curing Period
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel
Power Generation Projects

About the Company
Incorporated in February 1999, Steel Exchange India Ltd (SEIL) is primarily engaged in the manufacturing and trading of TMT bars, billets, ingots, sponge iron and power generation. The company has a manufacturing facility for sponge iron (220,000 Tons Per Annum (TPA)), billets (250,000 TPA), ingots (90,000 TPA), and TMT bars (225,000 TPA). The company also deals in sale and purchase of steel products through its trading division. This apart, the company also has 11.84 MW gas-based power plant, and a 60 MW thermal power plant is located within the premises of SEIL.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(Prov.)
Total operating income	788.09	898.82	1,099.45	NA
PBILDT	78.12	116.49	106.06	NA
PAT	64.29	139.98	116.47	NA
Overall gearing (times)	NM	5.61	0.82	NA
Interest coverage (times)	22.51	4.44	1.20	NA

A: Audited; P-Provisional; NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A4
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB; Stable

Annexure-2: Rating history for the 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-Term Loan	LT	-	-	-	1)Withdrawn (26-Aug-21) 2)CARE D; ISSUER NOT COOPERATING* (02-Aug-21)	1)CARE D; ISSUER NOT COOPERATING* (06-May-20)	-
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (26-Aug-21) 2)CARE D; ISSUER NOT COOPERATING* (02-Aug-21)	1)CARE D; ISSUER NOT COOPERATING* (06-May-20)	-
3	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (26-Aug-21) 2)CARE D; ISSUER NOT COOPERATING* (02-Aug-21)	1)CARE D; ISSUER NOT COOPERATING* (06-May-20)	-
4	Issuer Rating-Issuer Ratings	-	-	-				
5	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A4				
6	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:NA

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	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: 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:
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