Steel Exchange India Limited (Revised)

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00	CARE BB; Stable	Reaffirmed
Short Term Bank Facilities	40.00	CARE A4	Reaffirmed
Non-Convertible Debentures	304.35	CARE BB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and Non-Convertible Debentures (NCD) of Steel Exchange India Limited (SEIL) continues to remain constrained by moderate capital structure, weak coverage indicators, working capital-intensive nature of operations, exposure to commodity risk, and presence in competitive and cyclical industry. The ratings are, however, underpinned by experienced promoters, long track record of operations, improvement in scale of operations albeit net loss in FY23, favourable location of the facility, established brand name with diversified product portfolio, and a stable industry outlook. Ratings also takes cognizance of NCDs being refinanced at better terms.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Improvement in leverage position with overall gearing falling below 1x and Total debt/ PBILDT improving to less than 3x.
- Sustained growth in TOI and profitability, in future.

Negative factors

- Improvement Deterioration in overall gearing below 1.5x.
- Elongation in inventory holding period or operating cycle beyond 85 days, impacting the liquidity profile of the company.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that Steel Exchange India Limited (SEIL) will continue to benefit from its established brand name, and extensive experience of the promoters in the industry.

Detailed description of the key rating drivers:

Key weaknesses

Moderate capital structure with weak coverage indicators:

The capital structure of the company marked by overall gearing remains moderate at 0.91x as on March 31, 2023 (0.82x in FY22) however the net worth base has declined because of net loss during FY23. The coverage indicators marked by total debt to Gross Cash Accruals (GCA) remained weak because of negative accruals. Furthermore, the PBILDT interest coverage deteriorated to 0.91x in FY23, from 1.20x in FY22.

Working Capital intensive operations:

The operations of SEIL have remained working capital-intensive, with the majority of funds allocated to inventory, followed by debtors. There has been an improvement in the inventory holding period over time, as the company must maintain a steady level of finished goods inventory to meet regular demand. Furthermore, the collection period remained stable at 27 days in FY23 (24 days in the previous year), while creditor days also remained stable at 31 days in FY23.

Commodity Risk

Commodities are crucial inputs in the steel manufacturing process, and these commodities are part of global supply chains. Their prices are significantly influenced by various factors, including the geopolitical landscape, supply-demand imbalances, weather patterns, policy interventions by governments in key sourcing or consuming countries (especially China), and the increasing financialization of commodity markets, among others. Changes in the prices of coal and iron are typically reflected through adjustments in steel prices, helping to manage long-term price trends. FY22 witnessed notable volatility in commodity prices, particularly after the Russia-Ukraine war.

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

Presence in competitive and cyclical industry:
SEIL operates within the highly competitive and cyclical steel industry, characterized by the participation of numerous small and large players engaged in the production of various steel products, including TMT bars. This competitive landscape is evident in company's moderately low profit margins. Furthermore, SEIL is susceptible to the cyclicality of the real estate and construction sectors. Steel industry is sensitive to fluctuations in business cycles, encompassing changes in the broader economy, interest rates, and seasonal variations in demand and supply conditions within the market.

Key Strengths

Experienced promoters and long track record of operations:
SEIL, the flagship company of the Vizag Profiles group, is led by Mr. B Satish Kumar, who serves as the Chairman and Managing Director. He is well-qualified and possesses over three decades of experience in steel and related industries. The Joint Managing Director, Mr. B Ramesh Kumar, is a qualified technocrat who oversees the entire plant operations. Operations are further supported by Mr. B Suresh Kumar, Joint Managing Director, who also has over two decades of experience in the steel sector and is responsible for marketing and developing the dealership network. The company is also supported by other directors, Mr. V V Krishna Rao and Mr. Suresh Bavineni, each with more than a decade of experience in the manufacturing industry. Mr. Satish is assisted by a team of professionals responsible for handling key functional areas, and they collectively have experience in their respective fields for more than two decades.

Improvement in revenue albeit net losses in FY23 and Q1FY24:
The Total Operating Income (TOI) of the company witnessed an increase of 23% in FY23, reaching ₹1382.47 crore compared to ₹1119.74 crore in FY22, primarily attributable to improved sales realization. However, during FY23, the company incurred a net loss mainly due to high interest costs and depreciation expenses. Additionally, the company achieved a positive PBILDT in FY23. In this period, the interest cost of the Non-Convertible Debentures (NCD) was higher due to the redemption premium. However, with the NCD being refinanced at better terms company will save up on interest expenses, going forward.
NCD Refinancing: The company is in the process of refinancing its existing NCD (present NCD holder is Edelweiss Alternative Asset Advisor Limited). The refinance process is in its final stages of completion. As per the draft terms of new NCD, the company will enjoy a principal moratorium of 1 year along with reduction in the rate of interest. As per the existing NCD terms, principal is being re-paid quarterly and next due date of principal redemption was Sept. 30, 2023 however as the company is in the process of finalising its NCD refinancing it had sought approval from Edelweiss to defer its principal payment to next month which has been approved by the investors.

Favourable location of the facility:
The company's facility is strategically located with easy access to State and National Highways connecting major cities like Chennai, Hyderabad, Kolkata, Bhubaneshwar, and Raipur. It is also close to the Visakhapatnam and Gangavaram Ports, along with their associated logistics and container facilities. The Visakhapatnam International Airport is just 35 kms away from the plant. Additionally, the company has a captive Railway Siding with 2 Platforms on the Bailadila – Kirandul Line. They have established a regular tie-up with NMDC for procuring iron ore, and they are directly linked to the Singareni Collieries Company Ltd. in Andhra Pradesh through railways. For coal procurement, the company sources both domestic and imported coal from countries like South Africa and Australia through trusted international importers in India, ensuring competitive rates.

Established brand name with diversified product portfolio:
SEIL's products are marketed under the brand name 'Simhadri,' which holds a strong presence in the market, particularly in South India, and is one of the leading brands in TMT bars. The company offers a wide range of products, both in manufacturing and trading divisions, including rebar and wires, billets and ingots, sponge iron, steel scrap, and more. SEIL also generates revenue from the sale of by-products like coal fines and iron ore fines. With a diversified product portfolio, SEIL has the flexibility to adjust its product mix based on changing demand from various industries. About 48% of its total income comes from its top 10 clients, indicating a moderate level of client concentration risk.

Stable industry outlook:
The steel industry is expected to resume capacity additions. After falling to the lowest level of 2.5 million tonnes per annum in 2022-23, capacity additions in the steel industry are expected to recover and reach 10.4 million tonnes per annum in the two years ending in March 2025. About six million tonnes per annum of capacity is likely to be brought online by steel companies in the current year, 2023-24. The following year, 2024-25, will see production capacity of 4.4 million tonnes per annum come online. The National Steel Policy of 2017 envisions 300 million tonnes of production capacity by 2030-31. The per capita consumption of steel has increased from 57.6 kgs to 74.1 kgs during the last five years. The government has a fixed objective of increasing rural consumption of steel from the current 19.6 kg per capita to 38 kg per capita by 2030-31.

Liquidity: Stretched

The company's liquidity position is stretched, characterized by tightly matched projected accruals in comparison to repayment obligations. However, the same is expected to improve during the projected period as the company plans to refinance its existing NCDs at a lower ROI. Additionally, the company will raise additional funds through these NCDs to support working capital requirements. Furthermore, as of March 31, 2023, the company holds a free cash and bank balance of ₹20 crores. For the existing

NCDs, the company has scheduled quarterly repayments. However, post-refinancing, the company will have a one-year moratorium, providing cushion to liquidity.

Environment, social, and governance (ESG) risks

The company has complied with the necessary pollution control systems and has adequate governance.

Applicable criteria

Policy in respect of Non-cooperation by issuer
Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Steel
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

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 operates 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). Additionally, the company is involved in the sale and purchase of steel products through its trading division. Furthermore, SEIL owns an 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, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	1,099.45	1,388.33	252.17
PBILDT	106.06	96.65	21.25
PAT	116.47	-58.85	-5.43
Overall gearing (times)	0.81	0.91	NA
Interest coverage (times)	1.20	0.91	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not Available

Status of non-cooperation with previous CRA: The ratings of Steel Exchange India Limited (SEIL) continue to remain INC by Brickwork Ratings vide its PR dated December 22, 2022.

Any other information: Nil

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE503B07010	01-Jan-2021	21.5	31-03-2026	304.35#	CARE BB; Stable
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A4

#Outstanding as on Aug 31, 2023 was Rs.273.92 crore

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 2023-2024	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
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	-	1)CARE A4 (06-Jul-22)	-	-
6	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable	-	1)CARE BB; Stable (06-Jul-22)	-	-
7	Debentures-Non Convertible Debentures	LT	304.35	CARE BB; Stable	-	1)CARE BB; Stable (19-Jan-23)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on the 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.

Contact Us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: 080 46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Ramesh Bob A Director **CARE Ratings Limited** Phone: 040 40102030 E-mail: ramesh.bob@careedge.in	Nivedita Anirudh Ghayal Associate Director **CARE Ratings Limited** Phone: 040 40102030 E-mail: nivedita.ghayal@careedge.in Amit Jethwani Rating Analyst **CARE Ratings Limited** E-mail: Amit.Jethwani@careedge.in

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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