

Steel Exchange India Limited

March 11, 2024

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	273.92 (Reduced from 304.35)	CARE BB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities and Non-Convertible Debentures (NCD) of Steel Exchange India Limited (SEIL) continues to remain constrained by significant debt in the books entailing credit risk, losses incurred at net level during FY23 and 9MFY24, weak coverage indicators, working capital intensive nature of operations, profitability susceptible to volatility in raw material prices, and presence in highly cyclical industry. The rating strengths are, however, underpinned by experienced promoters with long track record of operations and established brand, successful refinancing of the NCDs at favourable terms, strategic location of the unit, satisfactory operating profitability, and stable industry outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in leverage position with overall gearing falling below 0.75x and Total debt/ PBILDT improving to less than 3x.
- Sustained growth in TOI and profitability, in future.
- Significant reduction in debt levels.

Negative factors

- Deterioration in overall gearing above 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 SEIL will continue to benefit from extensive experience of the promoters and management in the industry.

Detailed description of the key rating drivers:

Key weaknesses

Weak coverage indicators

The coverage indicators marked by total debt/GCA remained weak on account losses incurred in FY23 primarily due to higher interest cost on NCDs. Furthermore, the PBILDT interest coverage stood low at 0.92x in FY23 (PY:1.20x). The company's balance sheet is debt heavy with fully significant NCDs and fully utilised working capital limits. As per the terms, the next principal repayment of NCD is due in Dec, 2024, the ability of the company to generate sufficient accruals would remain a key monitorable.

Working Capital intensive operations

The company operates in highly working capital intensive business with most of its funds deployed towards inventory and receivables. Given fluctuation in raw material prices, the company needed to maintain a steady level of inventory to meet the growing demand. Also, there is lead time involved in procuring raw material where company needs to provide LCs necessitating higher dependence in working capital lines.

Profitability susceptible to volatility in raw material prices

Commodities are essential inputs to the manufacturing of steel. These commodities have global supply chains, and their prices are significantly impacted by various factors such as the geopolitical landscape, supply-demand imbalance, weather patterns,

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

policy interventions by governments in key sourcing/consuming countries (especially China), and the increasing financialization of commodities markets. The changing prices of coal and iron are generally reflected through adjustments in steel prices, which help manage long-term price trends. The past few years have seen significant volatility in commodity prices, particularly due to the effects of the Russian-Ukraine war and the Israel-Hamas conflict.

Competitive and cyclical industry

SEIL operates in the competitive and cyclical steel industry, characterized by numerous small and large players manufacturing various steel products, including TMT bars. The company faces moderately low profit margins as a result. Additionally, SEIL is exposed to the cyclical nature of the real estate/construction industry and the overall economy of the nation.

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 total operating income (TOI) albeit Net losses

The Total Operating Income (TOI) of the company increased by 23% to Rs. 1382.47 crore in FY23 compared to Rs. 1119.74 crore in FY22, primarily driven by improved sales realization in TMT Bars and Billets. However, the company incurred a net loss primarily due to high interest costs and depreciation expenses in FY23.

In 9MFY24, the company has achieved a TOI of Rs. 777.02 crore, compared to Rs. 979.21 crore during 9MFY23. However, the company continues to incur loss at net level.

Refinancing of the NCDs at favourable terms

On October 31, 2023, the company refinanced its existing NCD. The previous NCD holder, Edelweiss Alternative Asset Advisor Limited, completely sold the NCD to Neo Asset Management Private Limited and True North Credit Opportunities. Key terms included a reduction in the ROI from 21.5% to 18.75% and a principal moratorium of 1 year. An additional Rs. 100 crore NCDs were also raised of which Rs. 60 crore is being used towards company's capex requirement and remaining for working capital needs.

Strategic location of the facility

The company's facility is strategically located with access to State and National Highways connecting to major cities such as Chennai, Hyderabad, Kolkata, Bhubaneswar, and Raipur, as well as Visakhapatnam and Gangavaram Ports with their associated logistics and container facilities nearby. Additionally, the Visakhapatnam International Airport is conveniently situated 35 kilometres from the plant. The company benefits from a captive railway siding with two platforms, situated on the Bailadila – Kirandul Line. Moreover, the company has established ongoing partnerships with NMDC for procuring iron ore and with the Singareni Collieries Company Ltd, Andhra Pradesh, directly linked to the mines by railway. In addition to sourcing domestic coal, the company procures imported coal from countries such as South Africa and Australia through reputable international importers in India, ensuring competitive rates on a regular basis.

Established brand with product diversification

SEIL markets its products under the brand name 'Simhadri', which boasts a strong presence in the market, particularly in South India, and ranks as one of the largest brands in TMT bars. The company offers a comprehensive range of products across its manufacturing and trading divisions, including rebar and wires, billets and ingots, sponge iron, and steel scrap, among others. Additionally, SEIL derives revenue from the sale of by-products such as coal fines and iron ore fines. With a diverse product portfolio, the company has the flexibility to adjust its product mix to meet evolving demands from various industries.

Liquidity: Stretched

The company's liquidity position is currently stretched due to tight cash, net losses and below unity interest coverage ratio. accruals compared to repayment obligations. The working capital limits also remain fully utilised. However, liquidity is expected to improve as company is envisaging to infuse funds by way of raising equity.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

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[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Iron & Steel](#)

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 located within the premises of SEIL.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,099.45	1,388.33	777.02
PBILDT	106.06	96.65	65.75
PAT	116.47	-58.85	-8.87
Overall gearing (times)	0.82	0.91	1.18
Interest coverage (times)	1.20	0.92	1.13

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: The ratings of Steel Exchange India Limited (SEIL) continue to remain INC by Brickworks Ratings, vide its PR dated January 25, 2024, due to lack of available information.

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: 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	INE503B07036	01-Jan-2021	18.75	31-03-2028	273.92	CARE BB; Stable
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A4

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 (04-Oct-23)	1)CARE A4 (06-Jul-22)	-	-
6	Fund-based - LT-Cash Credit	LT*	10.00	CARE BB; Stable	1)CARE BB; Stable (04-Oct-23)	1)CARE BB; Stable (06-Jul-22)	-	-
7	Debentures-Non Convertible Debentures	LT*	273.92	CARE BB; Stable	1)CARE BB; Stable (04-Oct-23)	1)CARE BB; Stable (19-Jan-23)	-	-

*LT: Long term **ST: 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.

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About us:

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