Shivalay Ispat and Power Private Limited

April 05, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	36.00	CARE AA-; Stable / CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

For arriving at ratings of Shivalay Ispat and Power Private Limited (SIPPL), CARE Ratings Limited (CARE Ratings) has combined the business and financial risk profiles of SIPPL with Real Ispat and Power Ltd (RIPL), API Ispat and Powertech Pvt Ltd (API), and Ajay Steels Pvt Ltd (ASPL), as the entities have strong operational and financial linkages and belong to the same promoter group- the Real Ispat Group. The ongoing capex in a subsidiary of RIPL has also been combined.

Ratings assigned to bank facilities of SIPPL continue to derive comfort from the group's established track record, semi-integrated nature of operations, and the plants' strategic location. Ratings also factor in the increase in the combined total operating income (TOI) in FY23 (refers to period April 1 to March 31) driven by both improvement in the sales volume and realisations, though the TOI decreased y-o-y in 9MFY24 despite strong volume growth across products due to lower average sales realisations in line with decline in raw material cost. The operating margin witnessed an increase during the aforesaid periods on the back of higher gross margin and better absorption of fixed overheads with volume growth. Ratings continue to derive strength from the strong capital structure, comfortable debt coverage indicators, and healthy liquidity position of the group.

Ratings also take note of the cost and time overrun in the large-size ongoing capex being undertaken by the group for setting up a pellet plant, sponge iron plant and various other facilities for backward integration to improve operating efficiency. Cost and time overrun in the ongoing project (primarily due to change in scope of the project) is not expected to materially impact the capital structure and debt coverage indicators.

Ratings continue to remain constrained by the intense competition in the iron and steel industry, profitability being susceptible to volatility in the input prices, and cyclicality associated with the steel industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the combined scale of operations (TOI>₹6,500 crore) with PBILDT/mt (>₹6,500/mt) and return on capital employed (ROCE; >20%) on a sustained basis.
- Diversification of the product profile without significant impact to the capital structure.

Negative factors

- Decline in the combined scale of operations (TOI<₹2,000 crore) or reduction in PBILDT/MT (<₹2,500/mt) on a sustained basis.
- Deterioration of combined capital structure marked with overall gearing (>0.50x) and total debt/gross cash accruals (GCA) (>2x) on a sustained basis.

Analytical approach: Combined

For arriving at ratings of SIPPL, CARE Ratings has combined the business and financial risk profiles of SIPPL with RIPL, API, and ASPL. The companies have strong operational and financial linkages, operating in similar line of business and belong to the same promoter group – the Real Ispat group. The group is undertaking capex in Real Ispat and Energy Private Limited (RIEPL), a wholly owned subsidiary of RIPL. The capex being undertaken in RIEPL has also been combined.

Outlook: Stable

The stable outlook reflects that SIPPL is expected to sustain its strong financial risk profile amid healthy cash flow generation from operations despite large-size ongoing capex with both time and cost overrun, which is expected to be funded majorly out of internal accruals.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with long track record in the steel industry

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

SIPPL was incorporated in April 2004, and was acquired by the Real Ispat group later in August 2011, which is promoted by the Raipur-based Agrawal family. The group has more than two decades of experience in the steel industry. Prior to setting up of RIPL (the flagship company of the group) in 1999, the promoters were engaged in the trading of steel products.

Semi-integrated operations with operational linkages among the group companies

The group's manufacturing operations are semi-integrated in nature with sponge iron, captive power plant, billet and rolled products facilities. The intermediate products, sponge iron and billet, are mainly captively consumed for manufacturing of TMT and wire drawings by API and RIPL, meeting around 55% and 63% of the group's total requirement for sponge and billet, respectively. The vertical integration of the operations coupled with captive power sources among the group companies results in strong operational linkages, which in turn leads to better cost structure.

The plant's strategic location with established brand presence

In manufacturing steel-related products, freight cost constitutes a significant portion as large amount of bulky raw material is required to be sourced to the manufacturing site. As the iron ore and coal mines are within 400 km and 120 km from the plants, the freight cost is optimised to that extent. The plants are also well connected through road and rail transport, facilitating easy transportation of raw materials and finished goods.

The group sells its long steel products (TMT bars and wire drawings) under the brand name of 'GK TMT', which is an established brand in central India. The group has more than 200 dealers and distributors across the country for its products.

Improved capacity utilisation in FY23 and 9MFY24 with increase in TMT production

As sponge iron capacity is lower than its full requirement, it continued to be fully utilised in FY23 and 9MFY24. The capacity utilisation (CU) of billet, which primarily uses in-house sponge iron as one of its inputs, improved slightly from 59% in FY22 to 65% in FY23 and further improved to 84% in 9MFY24. The CU for TMT increased from 75% in FY22 to 79% in FY23 with further improvement to 94% in 9MFY24.

Improved profitability margin in FY23 and 9MFY24

On a combined level, the group's TOI witnessed a significant growth of 19% y-o-y in FY23 driven by increase in both volumes (about 9%) and realisation (about 4%) of rolled products. The PBILDT margin also witnessed an increase from 8.11% in FY22 to 9.84% in FY23 due to higher gross margin and better absorption of fixed overheads with growth in capacity utilisation. The profit after tax (PAT) margin witnessed a slight decline in comparison to FY22, due to decrease in non-operating income. The group earned healthy GCA of ₹321 crore in FY23.

However, in 9MFY24, the TOI witnessed a decline of around 8% y-o-y, despite higher sales volume of almost all the products, mainly due to lower realisations of its products in line with declining raw material prices. The group continued to generate healthy GCA of ₹232 crore in 9MFY24.

Healthy capital structure and debt coverage indicators; likely to sustain

The group's capital structure continues to be comfortable marked by low debt levels. The overall gearing improved to 0.12x as on March 31, 2023 (0.18x as on March 31, 2022), with decrease in the total debt alongside higher accretion of profits to reserves. Total debt/GCA also improved to 0.51x as on March 31, 2023 compared with 0.77x as on March 31, 2022. The interest coverage also continued to be comfortable at more than 87x in FY23 (41x in FY22).

Going forward, the capital structure is not expected to be materially impacted even with planned capex. The company's cash reserves and strong accruals are expected to keep debt coverage indicators healthy.

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; 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.

Liquidity: Strong

The liquidity position of the group is strong with free cash and cash equivalents of around ₹82 crore as on December 31, 2023, and group earning GCA of ₹321 crore as against nil term debt repayment obligations. The average fund-based working capital limit utilisation also stood low at around 13% during the last 12-month period ended February 2024 on a combined level.

The group has a comfortable capital structure which provides sufficient gearing head room for raising additional debt for capex. Furthermore, strong cash accruals and available liquidity are also expected to support liquidity profile in the light of capex. The group's unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key weaknesses

Intense competition in the industry

The group is engaged in manufacturing sponge, billets, TMT bars, and wire drawings, the industry of which is characterised by high fragmentation mainly due to presence of numerous unorganised players. Low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power compared to the customers.

Profitability susceptible to volatility in input prices

The raw materials (iron ore and coal) form the largest component of the total cost of sales of steel products. This apart, the group also purchases sponge iron and billet from external sources to the extent of shortfall required for producing rolled products. They cumulatively formed around 87% of the total cost of sales in FY23 (88% in FY22). The group primarily sells rolled products including TMT in the market and consumes the intermediate products, such as sponge, captively. However, basic raw materials, such as iron ore, dolomite, iron ore pellet, scrap, and pig iron, used to produce sponge, are directly sourced from the market, and their prices are volatile in nature. Hence, the group's profitability is susceptible to fluctuation in the raw material prices.

Cyclicality associated with the steel industry

Steel is a cyclical industry, strongly correlated to economic cycles since its key users, construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Besides local factors, the global demand supply situation specially with respect to China is major factor impacting the steel prices and volumes. The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Project risk

The group is undertaking capex in RIEPL for setting up production facilities of pellet plant, sponge iron plant and various other facilities as a part of backward integration for the existing production facilities. The total project cost is estimated to be ₹720 crore (revised from earlier estimations of ₹550 crore), which is expected to be funded by debt of ₹300 crore (yet to be tied-up) and balance out of internal accruals/available liquidity. The project is expected to be completed by October 2025 (time overrun from the earlier estimations). The group has already incurred ₹347 crore on the project till December 31, 2023, funded entirely out of available liquidity with the group.
Given the strong capital structure, the group has sufficient gearing headroom to undertake the project. The cost and time overrun in the ongoing project (primarily due to change in scope of the project) is not expected to materially impact the capital structure and debt coverage indicators. Higher integration would enable the company to be more competitive and withstand industry downcycle, going forward.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
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

SIPPL was incorporated in 2004 to manufacture sponge iron with an installed capacity of 90,000 MTPA and captive power plant (CPP-WHRB) of 7.5 MW at Raipur, Chhattisgarh. Later in August 2011, SIPPL was acquired by RIPL as part of backward integration plan of the Real Ispat group.
The Real Ispat Group was promoted by the Chhattisgarh-based Agrawal family in 1999. RIPL is the flagship company of the group and is engaged in manufacturing and selling of long steel products under the brand name of "GK TMT". As on December 31, 2023, the group has sponge iron capacity of 360,000 MTPA, billet capacity of 648,400 MTPA, TMT capacity of 745,250 MTPA, wire drawings capacity of 245,250 MTPA, and CPP of 45.51 MW (28.50 MW-WHRB, 17 MW-coal based) at its manufacturing

facilities located at Raipur, Chhattisgarh. The group also trades in coal through Ajay Steels Private Limited, which meets the group's entire imported coal requirement.

Brief Financials (₹ crore) – Combined	FY22 (UA)	FY23 (UA)	9MFY24 (UA)
Total operating income	3,225.45	3,836.54	2,615.36
PBILDT	261.64	377.45	300.14
PAT	224.34	250.68	203.53
Overall gearing (times)	0.18	0.12	NA
Interest coverage (times)	40.96	87.18	70.62

UA: Unaudited (Financials are combined by CARE Ratings); NA: Not available
Note: 'the above results are latest financial results available'

Brief Financials (₹ crore) – Standalone	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	330.50	326.19	233.77
PBILDT	61.82	83.77	58.52
PAT	53.44	68.44	42.08
Overall gearing (times)	0.08	0.02	NA
Interest coverage (times)	68.10	150.20	104.50

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

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

Complexity level of various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	36.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Ratings	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/Non-fund-based-LT/ST	LT/ST	36.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (06-Apr-23)	-	1)CARE AA-; Stable / CARE A1+ (21-Mar-22)	1)CARE A+; Stable / CARE A1 (07-Jan-21)

LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of various facilities rated

Sr. No.	Name of the Facilities	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	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:
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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