

Steel Exchange India Limited

October 09, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|------------------|---------------------|---------------------------------|
| Long-term bank facilities | 10.00 | CARE BB-; Stable | Downgraded from CARE BB; Stable |
| Short-term bank facilities | 40.00 | CARE A4 | Reaffirmed |
| Non-convertible debentures | 273.92 | CARE BB-; Stable | Downgraded from CARE BB; Stable |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities and instruments of Steel Exchange India Ltd (SEIL) factors in the moderation in absolute profitability levels (PBILDT refers to profit before interest, lease rentals, depreciation and taxation) over the last three fiscals as against the envisaged levels. The rating action also takes into account the elongation of operating cycle in FY24 (refer to the period from April 01 to March 31), over FY23, largely on account of higher inventory and collection days. While the domestic demand for steel continues to remain robust, net sales realizations (NSR) witnessed a decline, largely in line with the decline in raw material and international steel prices. During FY24, SEIL has managed to improve upon its sales volumes, however, realizations per tonne has witnessed moderation, as a result of which the total operating income (TOI) of the company declined. Apart from being exposed to the inherent cyclical nature of the steel industry, the ratings further remain constrained due to significant debt in the books, weak coverage indicators, highly working capital-intensive nature of operations and susceptibility of profitability margins on account of volatility in prices of raw material and finished goods.

The ratings, however, derive comfort from the experienced promoters and their ability to bring in the capital to support the business operations, established brand and the satisfactory operations of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steady growth in TOI while maintaining PBILDT margin above 9% on a sustained basis.
- Significant improvement in liquidity and coverage indicators.

Negative factors

- Significant reduction in TOI and decline in profitability levels.
- Working capital cycle extending beyond 100 days, leading to adverse liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that SEIL will continue to benefit from extensive experience of its promoters and management in the industry.

Detailed description of key rating drivers:

Key weaknesses

Higher inventory and receivables days, further enhancing working capital requirements

SEIL's operations continues to be working capital intensive, with substantial portion of funds parked in inventory and debtors. The company's inventory holding period as well as the receivables has increased over time. This rise is partly due to the presence of slow-moving finished goods inventory as well as raw material inventory, leading to an increase in inventory days to 105 days in FY24, compared to 73 days in the previous year. Consequently, the operating cycle increased to 104 days in FY24 (previous year: 68 days).

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

Competitive landscape and vulnerability to commodity risks

Having its presence in the steel industry, SEIL faces intense competition due to numerous players manufacturing various steel products, including TMT bars. The company's profit margins are moderately low, reflecting the industry's competitive nature. Additionally, SEIL is exposed to cyclicalities in the real estate and construction sectors. Regarding commodity risks, SEIL relies on essential inputs like coal and iron for steel production. These commodities have global supply chains and are influenced by factors such as geopolitical dynamics, supply-demand imbalances, weather patterns, and government policies (especially in China). The recent volatility in commodity prices, exacerbated by events like the Russia-Ukraine conflict, underscores the need for managing long-term price trends.

Weak coverage indicators

The company's coverage indicators, as evidenced by the total debt to gross cash accruals (TD/GCA) ratio, remained weak due to trading income losses in FY24. PBILDT interest coverage ratio was moderate at 1.18x in FY24, compared to 0.89x in the previous year. The balance sheet shows a high level of debt, including significant non-convertible debentures (NCDs). In FY24, the company successfully refinanced its existing NCDs at a lower interest rate and raised an additional ₹100 crore through NCDs. Of this amount, ₹40 crore are allocated for working capital requirements, and ₹60 crore being designated for capacity expansion for in-house 8mm bar manufacturing. As of June 2024, the company has fully utilized its working capital limits. According to the terms of the NCDs, the next principal repayment is due in December 2024. The company's ability to generate sufficient accruals by then will be a critical factor to monitor.

Key Strengths**Experienced promoters & long track record of operations**

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 Director, 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.

Integrated steel plant with strategic location benefits

The company's facility is strategically positioned with access to State and National Highways connecting major cities like Chennai, Hyderabad, Kolkata, Bhubaneswar, and Raipur. It's also close to Visakhapatnam and Gangavaram Ports, providing logistics and container services, and is just 35 kilometres from Visakhapatnam International Airport. The company operates the largest private integrated steel plant in Andhra Pradesh and Telangana, located in L. Kota Mandal, Vizianagaram District, spanning nearly 500 acres. The plant has three private railway sidings on the Bailadila – Kirandul Line.

The company holds a renewable three-year agreement with NMDC for iron ore supply and is connected by rail to the Singareni Collieries Company Ltd. It sources coal both domestically and through imports from South Africa, Australia, and other countries, securing competitive prices. The facility includes a sponge iron plant with a 220,000 TPA capacity, a steel melting shop with a 250,000 TPA capacity, and a rolling mill with a 225,000 TPA capacity. Additionally, it has an ingot facility with a 90,000 TPA capacity. The company is currently increasing its billet capacity from 250,000 MTA to 360,000 MTA and expanding its rebar production, with a new rolling mill expected to raise capacity from 225,000 MTA to 357,000 MTA within three months.

Established brand name with product diversification

SEIL markets its products under the brand name 'Simhadri' which has a strong presence, particularly in South India, and is one of the leading brands in TMT bars. The company offers a diverse range of products in both its manufacturing and trading divisions, including rebar and wires, billets and ingots, sponge iron, and steel scrap. Additionally, the TMT bars division contributes 76% to the total revenue from manufacturing. SEIL generates revenue from by-products such as coal fines and iron ore fines. The company's product portfolio is diversified, allowing it to adjust its product mix to meet changing demands from end-user industries. SEIL derives approximately 66% of its total income from its top 10 clients, indicating a moderate level of client concentration risk.

Liquidity: Stretched

The company is currently experiencing a strained liquidity position due to tight cash accruals as compared to its repayment obligations. The average utilisation of its working capital limits (fund-based) was approximately 80% for the 12-month period ending on June 30, 2024. In FY23, the company raised Rs. ₹159.73 crores through the issuance of share warrants and preferential allotment. Of this amount, ₹91.48 crores were received in FY24, with the remaining ₹68.25 crores expected to be received over the next 18 months from the allotment date in January 2024. There is significant reliance on fund raising towards timely payment of the company's debt repayment obligations.

Assumptions/Covenant: 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](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Iron & Steel](#)

About the company and industry**Industry classification**

| Macroeconomic indicator | Sector | Industry | Basic industry |
|-------------------------|-----------------|----------------|----------------|
| Commodities | Metals & mining | Ferrous metals | Iron & steel |

Incorporated in February 1999, SEIL is primarily engaged in manufacturing and trading 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, 2023 (A) | March 31, 2024 (A) | Q1FY25 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 1,388.33 | 1,089.17 | 263.7 |
| PBILDT | 94.46 | 91.97 | 27.4 |
| PAT | -58.85 | 10.89 | 2.6 |
| Overall gearing (times) | 1.27 | 0.88 | 0.88 |
| Interest coverage (times) | 0.89 | 1.18 | 1.4 |

A: Audited UA: Unaudited; Note: these are latest available financial results

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 September 30, 2024, due to the lack of minimum required information from the company.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook |
|--------------------------------------|--------------|-------------------------------|-----------------|----------------------------|-----------------------------|------------------------------------|
| Fund-based - LT-Cash Credit | | - | - | - | 10.00 | CARE BB-; Stable |
| Non-convertible Debenture | INE503B07036 | 01-Jan-2021 | 18.75 | 31-Mar-2028 | 273.92 | CARE BB-; Stable |
| Non-fund-based - ST-Letter of credit | | - | - | - | 40.00 | CARE A4 |

Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Term Loan | LT | - | - | - | - | - | 1)Withdrawn (26-Aug-21) 2)CARE D; ISSUER NOT COOPERATING* (02-Aug-21) |
| 2 | Non-fund-based - ST-Letter of credit | ST | - | - | - | - | - | 1)Withdrawn (26-Aug-21) 2)CARE D; ISSUER NOT COOPERATING* (02-Aug-21) |
| 3 | Fund-based - LT-Cash Credit | LT | - | - | - | - | - | 1)Withdrawn (26-Aug-21) 2)CARE D; ISSUER NOT COOPERATING* (02-Aug-21) |
| 4 | Non-fund-based - ST-Letter of credit | ST | 40.00 | CARE A4 | - | 1)CARE A4 (11-Mar-24) | 1)CARE A4 (06-Jul-22) | - |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|------------------|---|--|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | 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 |
| | | | | | | 2)CARE A4 (04-Oct-23) | | |
| 5 | Fund-based - LT-Cash Credit | LT | 10.00 | CARE BB-; Stable | - | 1)CARE BB; Stable (11-Mar-24) 2)CARE BB; Stable (04-Oct-23) | 1)CARE BB; Stable (06-Jul-22) | - |
| 6 | Debentures-Non Convertible Debentures | LT | 273.92 | CARE BB-; Stable | - | 1)CARE BB; Stable (11-Mar-24) 2)CARE BB; Stable (04-Oct-23) | 1)CARE BB; Stable (19-Jan-23) | - |

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact Us

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| Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 912267543404 E-mail: saikat.roy@careedge.in | Analytical Contacts Pulkit Agarwal Director CARE Ratings Limited Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in Hitesh Avachat Associate Director CARE Ratings Limited Phone: 912267543510 E-mail: hitesh.avachat@careedge.in Mandar Avachar Rating Analyst CARE Ratings Limited E-mail: Mandar.avachar@careedge.in |
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About us:

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