Shera Energy Limited

January 24, 2025

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4.49	CARE BBB+; Stable	Assigned
Long Term / Short Term Bank Facilities	92.16	CARE BBB+; Stable / CARE A3+	Assigned
Short Term Bank Facilities	93.35	CARE A3+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Shera Energy Limited (SEL) derives strength from vast experience of its promoter along with SEL's long track record of operations in the metal industry and its diversified product portfolio. The ratings also factor volume driven growth in SEL's scale of operations and its adequate liquidity, which is further expected to be aided by raising of Rs.30.93 crore through preferential issue during Q4FY25.
The rating further factors in expected benefits from the on-going product diversification capex which is expected to commence operations in a phased manner during FY26 (FY refers to the period April 01 to March 31).

The above rating strengths, however, are partially offset by SEL's moderate profitability which is further susceptible to volatility in input prices, its moderate financial risk profile and prevalent competition in the non-ferrous metal industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume driven growth in scale of operations leading to TOI above Rs.1500 crore and PBILDT margin above 6.50% on a sustained basis
- Improvement in debt coverage indicators and liquidity cushion marked by PBILDT interest coverage above 3x on a sustained basis and Total Debt / PBILDT below 4.00x on a sustained basis
- Improvement in overall gearing below 1x on a sustained basis

Negative factors

- Any large size debt funded capital expenditure or higher than envisaged increase in working capital intensity leading to deterioration in overall gearing above 2.25x on a sustained basis and stress on debt coverage indicators and liquidity position of the company
- Deterioration in PBILDT interest coverage below 1.75x on a sustained basis

Analytical approach: Consolidated

To arrive at the ratings, CARE Ratings Limited (CARE Ratings) has taken a consolidated view of SEL and its subsidiaries, Rajputana Industries Limited (RIL; 51% stake), Shera Metal Private Limited (SMPL; 82.13% stake) and Shera Zambia Limited (98% stake), considering managerial, financial and operational linkages.

Outlook: Stable

The Stable outlook on the long-term rating reflects CARE Ratings expectations that SEL will continue to benefit from vast experience of its promoters and its diversified product portfolio.

Detailed description of key rating drivers:

Key strengths

Experienced promoter with established track record of operations with diversified product portfolio

Established in 2003 by Mr Sheikh Naseem having an experience of over two decades of experience in the non-ferrous metal industry. Initially, SEL focused on manufacturing of copper and aluminium winding wires. Over the years, the group has successfully implemented several capacity expansion plans and currently it produces a diverse range of products, including various types of aluminium and copper winding wires, bus bars, strips, tubes, rods, wire rods, and brass products, meeting the requirement of multiple end user industries.

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

Continuous increase in capacity utilisation level leading to volume driven growth in TOI
SEL's TOI (consolidated) grew at a CAGR of 20% over the last five years, ending FY24. In FY24, SEL's TOI grew by 26% year-on-year to Rs.874 crore, driven by a 35.72% growth in sales volume to 17,576 MTPA, from 12,951 MTPA in FY23. SEL's capacity utilisation stood healthy at 81% in H1FY25 as against 49% in FY20.
In H1FY25 (provisional), SEL reported a TOI of Rs.602 crore, compared to Rs.492 crore in H1FY24, supported by higher sales volumes and realisation. CARE Ratings expects SEL to sustain its volume growth and achieve a TOI of around Rs.1150 crore in FY25.

Expansion of value-added product portfolio and commencement of overseas operations, albeit healthy off-take from the same shall remain key monitorable
At a group level, SEL is undertaking multiple capex aimed at expanding its product portfolio of value-added products and diversifying geographically by setting up a subsidiary in Zambia.
On a consolidated basis, the total projected capex cost is expected to be around Rs.54.70 crore with around Rs.35.80 crore allocated for domestic operations and Rs.18.90 crore for Zambian operations. The capex is expected to be funded through debt of around Rs.49 crore and balance through proceeds of preferential issue and internal accruals. Scaling up of operations, along with achievement of envisaged TOI and profitability as well as effective management of incremental working capital requirements, will be key monitorable from the credit perspective

Key weaknesses

Low value-addition leading to moderate profitability
SEL's PBILDT margin has ranged from 5.50% to 7.70% over the past five years, influenced by raw material price fluctuations and product mix changes. In FY24, the PBILDT margin remained stable at 5.85% (FY23: 5.53%).
However, the PBILDT margin declined to 4.84% in H1FY25 as the company offered cash discounts to boost sales volume, gain market share and reduce its reliance on bank borrowings for working capital requirements. Nevertheless, the PAT margin remained stable at 1.61% in H1FY25 (FY24:1.61%), due to reduction in interest cost.

Improving financial risk profile, albeit continues to remain moderate
SEL's financial risk profile has improved over the last three years, with overall gearing reducing from 2.76x at FY22-end to 2.10x at FY24-end. The company's net worth (on consolidated basis), increased to Rs.155.04 crore as on September 30, 2024 (FY24-end: Rs.126.49 crore) consequent to RIL raising equity through IPO. This led to improved overall gearing and TOL/TNW ratio of 1.88x (FY24: 2.10x) and 2.28x (FY24: 2.43x), respectively as on September-end. However, with planned debt-funded expansion in Q4FY25 and FY26, leverage is expected to remain moderate during the projected period.
Debt coverage indicators remained moderate, with PBILDT interest coverage at 1.69x and TD/GCA at 12.23x in FY24 owing to moderate profitability and GCA levels. The interest coverage ratio improved to 2.20x in H1FY25 due to reduced interest costs.

Profitability vulnerable to volatility in raw material prices
SEL's profitability is vulnerable to sharp fluctuations in raw material prices (mainly copper), which forms ~95% of total cost of sales for the company. Majority of the inventory holding remains order-backed, where raw material is sourced back-to-back from suppliers against confirmed orders, mitigating price volatility of raw materials to a large extent. Nevertheless, as RIL (subsidiary of SEL, engaged in scrap recycling) has a longer production time and hence maintains an inventory of around 80-90 days, a portion of which is not order-backed.

Presence in fragmented and competitive industry with low bargaining power
SEL operates in a highly competitive and fragmented winding wire / conductor industry characterised by the presence of numerous organised and unorganised players, given the low technical expertise requirement and value addition in manufacturing winding wires / rods and ingots. Due to intense competition in the industry, the bargaining power of the group remains low.

Liquidity: Adequate
SEL's liquidity remained adequate characterized by healthy cash flow from operations, moderate cushion available in cash accruals vis-à-vis term loan repayment obligations along with its modest capex requirements. Liquidity of the company is expected to be further aided by fund raising through preferential issue during Q4FY25, to support the company's incremental working capital requirements and fund capex plans.
Average utilisation of fund-based limits and non-fund based limits remained moderate at 78% and 81% respectively for the trailing 12 months ended October, 2024. Furthermore, access to RXIL and bill discounting facility helps the company to bridge the gap in working capital requirements.

Operating cycle of company remained satisfactory 68 days. Gross cash accruals during the projected period shall be adequate to fund the debt repayment obligation, which is expected to remain in the range of Rs.12 crore - Rs.16 crore during FY25-FY27. SEL has free cash and bank balance of Rs.0.39 crore as on March 31, 2024 apart from lien marked FD's of Rs.17.12 crore.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Non Ferrous Metal
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Cables - Electricals

Jaipur (Rajasthan) based Shera Energy Limited (SEL) was originally incorporated as proprietorship concern in 2003 under the name of Shera Metals & Engineers by Mr. Sheikh Naseem. In 2009, its constitution was changed to Private limited, and later it got listed on National Stock Exchange (NSE) SME platform in 2023.

SEL primarily focuses on the production of specialized winding wires. The key offerings include round winding wires, bunched copper, and rectangular copper conductors in various forms such as bare, super enamelled, or paper covered. The manufacturing facility of the company is located at Kaladhera, Rajasthan having an installed capacity of 20,600 MTPA.

SEL has two domestic subsidiaries viz. Shera Metal Private Limited (SMPL) and Rajputana Industries Limited (RIL). SMPL is engaged into manufacturing of copper bus bar, tin plated copper bus bar, brass rod & wires and paper covered copper strips, tubes and conductors having an installed capacity of 9,270 MTPA located at Sikar, Rajasthan.

RIL is engaged in manufacturing of copper, aluminium and brass extruded and drawn products like billets/ingots, Mother shells, Tubes/pipes, Hollow/solid rods, etc. RIL's manufacturing facility located in Sikar, Rajasthan having an installed capacity of 11,600 MTPA.

Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	696.39	875.12	601.87
PBILDT	38.50	51.21	29.11
PAT	9.11	14.05	9.67
Overall gearing (times)	2.13	2.10	1.88
Interest coverage (times)	1.72	1.69	2.20

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

Standalone

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	548.28	629.40	420.04
PBILDT	20.57	25.75	14.33
PAT	4.65	6.98	4.37
Overall gearing (times)	1.32	1.66	1.83
Interest coverage (times)	1.48	1.41	1.83

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

Status of non-cooperation with previous CRA: None

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	February, 2028	4.49	CARE BBB+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	77.16	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	15.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.35	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	92.00	CARE A3+

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	4.49	CARE BBB+; Stable				
2	Fund-based - LT/ ST-Cash Credit	LT/ST	77.16	CARE BBB+; Stable / CARE A3+				
3	Non-fund-based - ST-Letter of credit	ST	92.00	CARE A3+				
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	15.00	CARE BBB+; Stable / CARE A3+				
5	Non-fund-based - ST-Credit Exposure Limit	ST	1.35	CARE A3+				

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	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Rajputana Industries Limited	Full Consolidation	Subsidiary
2	Shera Metal Private Limited	Full Consolidation	Subsidiary
3	Shera Zambia Limited	Full Consolidation	Subsidiary

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.

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About us:

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