

Shyam Century Ferrous Limited
January 08, 2019

Rating Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	30.00	CARE A-; Stable (Single A Minus; Outlook:Stable)	Reaffirmed
Long /Short term Bank Facilities	1.00	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook:Stable/A Two Plus)	Reaffirmed
Short term Bank Facilities	22.00	CARE A2+ (A Two Plus)	Reaffirmed
Total facilities	53.00 (Rupees Fifty-Three crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The aforesaid ratings assigned to Shyam Century Ferrous Limited (SCFL) continues to draw comfort from experienced promoters with established group, availability of captive power plant, improvement in the financial risk profile of the company during FY18 (refer to the period April 01 to March 31) and H1FY19 followed by comfortable capital structure.

The ratings, however, are constrained by SCFL's moderate capacity utilization, exposure to volatility in raw material and finished good prices, exposure in the Group Company and working capital intensive nature of operations coupled with high operating cycle. The rating also takes into account the low PLF of the captive power plant in FY18 & H1FY19, supplemented by increasing reliance on external sources for power requirement.

The ability of the company to improve the operating performance along with improvement in the profitability margins and timely receipt of subsidies are the key rating sensitivities.

Detailed description of key rating drivers

Key rating strengths

Experienced promoters and established group

The promoters of company are Mr. Sajjan Bhajanka, Mr. Hari Prasad Agarwal and Mr. Sanjay Agarwal who are reputed and experienced industrialists having interests in Ferro Alloys, Power, Cement, Plywood, Veneer, Laminates etc. The promoters of the company have over decades of rich experience in various industries. The other major group company is Star Cement Ltd (SCL) having a consolidated clinker capacity of 2.5 MTPA and cement capacity of 4.30 MTPA.

Availability of captive power plant

The production process of Ferro Alloy is highly power intensive and therefore the cost of the power is critical to the competitiveness of the products. In order to ensure competitiveness, the company has installed captive power plant of 14 MW which meets around ~55% requirement of the company thereby ensuring uninterrupted production. The company purchases the balance power from Indian Energy Exchange and also through its group company Meghalaya Power Ltd.

Eligible for subsidy

SCFL is eligible for various incentives and subsidies under North East Industrial and Investment Promotion Policy (NEIIPP), 2007. These subsidies are expected to boost the cash flow of the company.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Improvement in the profitability during FY18 & H1FY19 coupled with comfortable capital structure

SCFL witnessed a y-o-y improvement (~36%) in its top line during FY18, on account of increase in sales volume (14,189 MT in FY18 against 12,657 MT in FY17) and surge in the ferro silicon prices (Avg. Sale price – Rs.87,540/Mt in FY18 vis-à-vis Rs.73,141/Mt in FY17). Improved average sale price led to improvement in the profitability margins and GCA remained comfortable at 12.42 times as against debt repayment obligation in FY18. The debt-equity and overall gearing ratio continued to remain comfortable at 0.03x and 0.16x respectively as on March 31, 2018 as against 0.01x and 0.32x respectively as on Mar.31, 2017. Interest coverage ratio remained comfortable at 17.03 times in FY18.

During H1FY19, SCFL reported a PAT of Rs.7.01 crore (Rs.2.79 crore in H1FY18) on total operating income of Rs.66.47 crore (Rs.54.04 crore in H1FY18).

Key Rating Weakness**Moderate capacity utilization**

The capacity utilization has remained moderate over the last three years. However, it has improved to ~72% in FY18 (64% in FY17) on account of better demand scenario due to overall improvement in Iron and Steel sector backed by increase in activities in the infrastructure sector and Govt. initiative to revive the steel sector.

Low PLF of the captive power plant in FY18 & H1FY19

The PLF of the captive power plant has sharply declined and remained low at ~56% in FY18 vis-à-vis 85% in FY17 owing to non-availability of coal. Low PLF resulted in increased reliance on power from external source (IEX/ group entity -MPL). The average cost of captive power in FY18 was Rs.4.06/kwh as against Rs.6.14/kWh and Rs.4.48/kWh from Indian Energy Exchange (IEX) and Meghalaya Power Limited (MPL) respectively. The PLF has further declined to ~29% in H1FY19.

Exposure to group company

SCFL had a high exposure of Rs.33.74 crore in the form of investments in MPL accounting for ~33% of its net worth as on Mar.31, 2018. MPL is engaged in generating power and has a capacity of 51 MW. It supplies power to its group company SCL.

Working capital intensive nature of operation

The nature of business of SCFL requires the company to maintain a high level of inventory to ensure uninterrupted production and uninterrupted supply to the customer. Furthermore, the company has to offer high credit period to its customer due to low bargaining power of the company. On the other hand, it has to pay its creditors within 20-30 days. The working capital cycle was 172 days in FY18 (208 days in FY17).

Liquidity profile

The liquidity position of the company was satisfactory in the past 12 months. Average utilization of fund based working capital limit was ~15% during the twelve months ending October, 2018. The current ratio continues to remain satisfactory at around 1.86 times as on March 31, 2018.

Analytical approach: Standalone.

Applicable criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios – Non-Financial Sector](#)

About the Company

Shyam Century Ferrous Limited (SCFL) was incorporated in 2011. It was a dormant company till Apr.01, 2014 before the transfer of ferro alloy business including investment in Meghalaya Power Ltd. (MPL) - accounting for 48.8% shareholding of MPL, as per the scheme of demerger approved by the Hon'ble High Court of Meghalaya at Shillong dated Mar 31, 2015 effective from Apr 01, 2014. The promoters of company are Mr. Sajjan Bhajanka, Mr. Hari Prasad Agarwal and Mr. Sanjay Agarwal. The main companies promoted by them are Century Plyboards (I) Ltd. & Star Cement Ltd (formerly Cement Manufacturing Company Ltd).

SCFL is engaged in manufacturing of Ferro Silicon with a total capacity of 21,600 Metric tonnes per annum (MTPA) and has a captive power plant of 14 MW at Meghalaya.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	91.07	123.73
PBILDT	11.16	18.79
PAT	5.17	9.65
Overall gearing (times)	0.32	0.16
Interest coverage (times)	10.00	17.03

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A2+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	20.00	CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE A-; Stable	-	1)CARE A-; Stable (26-Sep-17)	1)CARE A- (17-Oct-16)	1)CARE A- (29-Jul-15)
2.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A2+	-	1)CARE A2+ (26-Sep-17)	1)CARE A2+ (17-Oct-16)	1)CARE A2+ (29-Jul-15)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	20.00	CARE A2+	-	1)CARE A2+ (26-Sep-17)	1)CARE A2+ (17-Oct-16)	-
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (26-Sep-17)	1)CARE A- / CARE A2+ (17-Oct-16)	-



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