

Shyam Century Ferrous Limited

February 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	30.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Negative (Single A minus; Outlook: Negative)
Long /Short term Bank Facilities	2.00	CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable/A Three Plus)	Revised from CARE A-; Negative/ CARE A2+ (Single A minus; Outlook: Negative/A two Plus)
Short term Bank Facilities	22.00	CARE A3+ (A Three Plus)	Revised from CARE A2+; (A Two Plus)
Total facilities	54.00 (Rupees Fifty-Four Crore Only)		

* Details of instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Shyam Century Ferrous Limited (SCFL) is on account of continuous (q-o-q) deterioration in the financial performance of the company, marked by cash losses in 9MFY20 due to significant dip in the average sales realization.

The rating however continues to draw strength from experienced promoters with established group, comfortable capital structure and debt coverage indicators.

The ratings, however, are constrained by moderate capacity utilization, susceptible to volatility in raw material and finished good prices, exposure to Group Company and high operating cycle. The rating also factors in the low Plant Load Factor (PLF) of the captive power plant in FY19 followed by subsequent closure of the same in Q1FY20 owing to viability issues concerning its operation.

Key Rating Sensitivities

Positive Factors

- Ability of the company to improve its operating profit margin beyond 15% on a sustained basis.
- Ability of the company to improve its turnover beyond Rs.150 crore on a sustained basis.

Negative Factors

- Further moderation in the average sales realization from the current levels on a sustained basis.
- Increase in average collection period beyond 100 days on a sustained basis.

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.

Comfortable capital structure and debt coverage indicators

The capital structure of SCFL is comfortable marked with low term debt obligation (quarterly repayment of vehicle loan amounts to Rs.0.17 crore). The overall gearing ratio and Total Debt/GCA remained comfortable and improved to ~0.02x and ~0.26x as at March 31, 2019 as against ~0.16x and ~1.29x respectively as on March 31, 2018 due to lower utilizations of the working capital limit. The overall gearing continues to remain comfortable at ~0.02x, as on December 31, 2019.

Key Rating Weakness

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

Moderate capacity utilization

The capacity utilization has remained moderate over the last three fiscals. The same has however further moderated to around ~53% in 9MFY20 as against ~57% during H1FY20 and ~74% during FY19.

Deterioration in the financial performance during 9MFY20; albeit satisfactory financial performance in FY19

The company accounted for healthy sales realization in the first 9 months of FY19 which gradually moderated in the Q4, consequently leading to lower sales volume. Further due to increase in the power cost (attributable to low captive generation due to coal shortage vis-à-vis increased reliance on IEX) the PBILDT margin moderated to 14.02% in FY19 as against 15.73% in FY18. Gross Cash Accruals (GCA) however remained comfortable at Rs.13.17 crore in FY19 vis-a-vis debt repayment obligation of Rs.0.63 crore in FY19.

Further during 9MFY20 the average sales realization moderated to Rs.68,205/MT (Rs.94,189/MT during 9MFY19) as against Rs.91,433/MT during FY19, ensuing losses at the operational level. Consequently, SCFL reported cash loss of Rs.2.51 crore in 9MFY20 vis-à-vis GCA of Rs.13.17 crore in FY19.

Susceptible to volatility in the prices of raw materials

The company locally procures its major raw material like quartz (silica), LAM Coke, Super Screen Coal, Mills Scale, etc. The entire raw material procurement is on spot basis (i.e. at market-linked rates) and hence it is exposed to volatility in raw material prices.

Low Plant Load Factor (PLF) of the captive power plant in FY19 followed by subsequent closure of the same in Q1FY20

The production process of Ferro Alloy is highly power intensive (forming around 45%-50% of the cost of sales) and therefore the cost of the power is crucial to the competitiveness of the products. In order to ensure competitiveness, the company had installed captive power plant (CPP) of 14 MW which met around ~50% power requirement of the company in FY19 ensuring sustained production. The balance power was met from Indian Energy Exchange (IEX) and through its group company Meghalaya Power Ltd (MPL)]. The PLF of the captive power plant has declined and continued to remain low at ~29% in FY19 vis-à-vis ~56% in FY18 owing to the non-availability of coal in the state of Meghalaya.

Acknowledging the *viability issues concerning the operation of CPP* and with the view to rationalize the power cost, SCFL had to discontinue power generation through its CPP and shift the reliance to external sources (IEX and MPL-group entity) for meeting its power requirements. From May 2019, SCFL has entered into long term PPA of 5 years with Meghalaya Power Distribution Corporation Limited (MePDCL) for sourcing its power requirement.

Exposure to group company

SCFL had a high exposure of Rs.33.74 crore in the form of equity investment in Meghalaya Power Limited (MPL) accounting for ~30% of its net worth as on March 31, 2019. MPL is engaged in generating power and has a capacity of 51 MW. It supplies power to its group company Star Cement Limited (SCL).

Industry Outlook: Ferro alloy is an additive to finished steel to provide strength, hardness, and anti-corrosive properties etc. and hence the fortune of the same depends mainly on the growth of the steel industry. India's steel consumption increased by 1.67% over December 2018 and stood at 8.290 MT in December 2019. The consumption of total finished steel saw a growth of 3.76% in April-Dec 2019 over same period last year. The Indian Steel sector is expected to grow on the back of various initiatives of the Government pertaining to the domestic infrastructure and monetary policies.

Liquidity Position: Adequate

The liquidity position of the company remains adequate with maximum utilization of fund based working capital limit in the range of 5-12% during the last ten months ending January, 2020. Further SCFL has cash and cash equivalent (including fixed deposits) amounting to Rs.21.15 crore as on December 31, 2019.

Analytical approach: Standalone Approach with factoring linkage with Shyam Group & Century Group

Applicable criteria:

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology – Manufacturing Companies](#)

Financial Ratios – Non-Financial Sector

Rating Methodology: Consolidation and Factoring Linkages in Rating

About the Company

Shyam Century Ferrous Limited (SCFL) was incorporated in 2011. It was a dormant company till April 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)	FY18 (A)	FY19 (A)	9MFY20 (U/A)
Total operating income	124.52	134.44	55.19
PBILDT	19.59	18.85	-3.81
PAT	10.45	10.48	-4.23
Overall gearing (times)	0.16	0.03	0.02
Interest coverage (times)	17.76	14.55	NM

A: Audited, U/A: Un-audited NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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 BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	20.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.00	CARE BBB+; Stable / CARE A3+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	1)CARE A-; Negative (14-Nov-19) 2)CARE A-; Stable (05-Jul-19)	1)CARE A-; Stable (18-Feb-19) 2)CARE A-; Stable (08-Jan-19)	1)CARE A-; Stable (26-Sep-17)	1)CARE A- (17-Oct-16)
2.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3+	1)CARE A2+ (14-Nov-19) 2)CARE A2+ (08-Jan-19) 2)CARE A2+ (08-Jan-19)	1)CARE A2+ (18-Feb-19) 2)CARE A2+ (08-Jan-19)	1)CARE A2+ (26-Sep-17)	1)CARE A2+ (17-Oct-16)

					A2+ (05-Jul-19)			
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	20.00	CARE A3+	1)CARE A2+ (14-Nov-19) 2)CARE A2+ (05-Jul-19)	1)CARE A2+ (18-Feb-19) 2)CARE A2+ (08-Jan-19)	1)CARE A2+ (26-Sep-17)	1)CARE A2+ (17-Oct-16)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/S T	2.00	CARE BBB+; Stable / CARE A3+	1)CARE A-; Negative / CARE A2+ (14-Nov-19) 2)CARE A-; Stable / CARE A2+ (05-Jul-19)	1)CARE A-; Stable / CARE A2+ (18-Feb-19) 2)CARE A-; Stable / CARE A2+ (08-Jan-19)	1)CARE A-; Stable / CARE A2+ (26-Sep-17)	1)CARE A- / CARE A2+ (17-Oct-16)

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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