Shyam Century Ferrous Limited

July 05, 2019

Ratings

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	2.00	**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	**54.00 (Rupees Fifty-four crore Only)**		

** Details of instrument/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, satisfactory financial performance in FY19 (refer to the period April 01 to March 31) followed by comfortable capital structure and debt coverage indicators.

The ratings, however, are constrained by SCFL's moderate capacity utilization, susceptible 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 Plant Load Factor (PLF) of the captive power plant in FY19, supplemented by increasing reliance on external sources for power requirement.

The ability of the company to improve the operating performance along with the ability to operate the plant at the optimal levels 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 ~50% power requirement of the company in FY19 ensuring sustained production. The company purchases the balance power from Indian Energy Exchange (IEX) and also through its group company Meghalaya Power Ltd (MPL).

Satisfactory financial performance in FY19 coupled with comfortable capital structure and debt coverage indicators

The total operating income (OI) of SCFL registered a y-o-y growth of 8% during FY19 to Rs.134.44 crore. 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; attributable to subdued demand from the user industry. 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. However the PAT levels and margin remained satisfactory and relatively in line with FY18 (Rs.10.48 crore in FY19 vis-à-vis Rs.10.45 crore in FY18). Further Gross Cash Accruals (GCA) remained comfortable at 13.17 crore as against debt repayment obligation in FY19. The overall gearing ratio and Total Debt/GCA remained comfortable and improved to ~0.03x 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.

Key Rating Weakness

Moderate capacity utilization

The capacity utilization has remained moderate over the last three years. However, it has improved marginally to ~74% in FY19 (72% in FY17) on account of improved demand scenario in the Iron and Steel sector.

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

Low Plant Load Factor (PLF) of the captive power plant in FY19
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. Low PLF resulted in increased reliance on power from external source (IEX/ group entity -MPL). The average cost of captive power generation in FY19 was Rs.4.81/kwh as against Rs.5.26/kWh and Rs.4.43/kWh from Indian Energy Exchange (IEX) and Meghalaya Power Limited (MPL) respectively.

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).
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.

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 supplies 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 10-30 days. As a result the company has an elongated working capital cycle, which however improved to 144 days in FY19 vis-à-vis 172 days in FY18.

Liquidity: Adequate
The liquidity position of the company remains adequate with average utilization of fund based working capital limit in the range of ~15-20% during the last twelve months ending March, 2019. SCFL has cash and cash equivalent (including fixed deposits) amounting to Rs.9.84 crore as on March 31, 2019 ensuring sufficient liquidity in the medium term.

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. Finished steel production growth is likely to grow by 3%-4% during the year FY20 on a y-o-y basis. Besides, India’s steel consumption is also expected to grow by 5%-6% on the back of government’s expenditure towards infrastructure and construction. Prices in the domestic market has remained firm mainly on account of stable demand from the end user sectors and the protectionist measures adopted by the government safeguarding the domestic steel prices. Going ahead, in the domestic market, steel prices are likely to be supported by the stable demand outlook.

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 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)
Total operating income	124.52	134.44
PBILDT	19.59	18.85
PAT	10.45	10.48
Overall gearing (times)	0.16	0.03
Interest coverage (times)	17.76	14.55

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

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	-	-	-	2.00	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 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 A-; Stable	-	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 A2+	-	1)CARE A2+ (18-Feb-19) 2)CARE A2+ (08-Jan-19)	1)CARE A2+ (26-Sep-17)	1)CARE A2+ (17-Oct-16)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	20.00	CARE A2+	-	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/ST	2.00	CARE A-; Stable / CARE A2+	-	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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