

Shyam Century Ferrous Limited

July 07, 2020

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shyam Century Ferrous Limited (SCFL) continue to draw strength from experienced promoters with established group, comfortable capital structure and debt coverage indicators. The rating also takes into account the rationalization of power cost with complete shift in the reliance to external sources, post closure of the captive power plant in Q1FY20 owing to viability issues concerning its operation.

The ratings, however, are constrained by moderate capacity utilization, susceptible to volatility in raw material and finished good prices, deterioration in the financial performance of the company in FY20 (refers to the period from April 01 to March 31), exposure to group company, customer concentration risk and high operating cycle.

Key Rating Sensitivities

Positive Factors

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

Negative Factors

- Further moderation in the average sales realization from the current levels on a sustained basis.
- Increase in the cost of power thereby affecting the operating margins 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 continues to remain comfortable, marked by low term debt obligation (annual repayment of vehicle loan amounting to Rs.0.68 crore in FY20), with overall gearing ratio of 0.02x as on March 31, 2020 (0.03x as on March 31, 2019). Total Debt/GCA though moderated, remained comfortable at 1.05x as on March 31, 2020 as against 0.26x as on March 31, 2019 attributable to lower cash profits in FY20.

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

Rationalization of power cost by entering into a Power Purchase Agreement with Meghalaya Power Distribution Corporation Limited (MePDCL)

The production process of Ferro Alloy is highly power intensive (forming around 45%-50% of the cost of sales) and therefore the cost of power is crucial to competitiveness of the products. SCFL has entered into a long term PPA (5 years) with MePDCL in May 2019 to safeguard itself from the power availability concerns and to rationalize the cost of power consumed. Due to shortage of coal availability and viability issues, the captive power plant (14MW) has been non-operational since Q1FY20. Accordingly the average cost of power has come down to Rs.4.77/kwh in FY20 vis-à-vis Rs.4.89/kwh in FY19.

Key Rating Weakness***Moderate capacity utilization***

The capacity utilization has remained moderate over the last three fiscals. It has moderated to around ~56% in FY20 as against ~74% during FY19.

Susceptible to volatility in the prices of raw materials

The company locally procures its major raw material like Quartz, 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.

Customer concentration risk

SCFL is exposed to customer concentration risk as ~74% of its total sale in FY20 was contributed by its top ten customers. Therefore any disruption in the operations of the said clientele (be it regulatory or financial or economy related), will adversely impact the revenue of the company.

Deterioration in the financial performance during FY20

The total operating income (OI) of SCFL registered a y-o-y de-growth of around 34% during FY20 to Rs.89.14 crore. The same is attributable to significant moderation in the sales realization throughout 9MFY20 (which however improved in Q4), coupled with lower sales volume during the said period. In FY20, the average sales realization moderated to ~Rs.75,423/MT as against ~Rs.91,433/MT during FY19.

Consequently, PBILD margin deteriorated from 14.02% in FY19 to 2.88% in FY20 and thereby the company reported net losses of Rs.0.03 crore in FY20. GCA in FY20 is Rs.2.17 crore as against nominal debt repayment obligation of Rs.0.68 crore in FY20.

Exposure to group company

SCFL has a high exposure of Rs.33.74 crore in the form of equity investment in Meghalaya Power Limited (MPL) accounting for ~29% of its net worth as on March 31, 2020. 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, anti-corrosive properties etc. hence the fortune of the same depends mainly on the growth of steel industry.

India's crude steel production fell by a record 69.5% y-o-y in April 2020 (provisional) and the demand for steel contracted by 91% y-o-y in April 2020. Steel has been classified as an essential commodity and has been permitted to operate during the lockdown period. However production was impacted due to a sharp fall in demand from user industries (construction, real estate, auto and infrastructure) where most of them witnessed halt in production. The demand for steel in FY21 will be significantly lower and is not expected to be back to normal with June and September quarters to be badly impacted due to lower demand from the user segments. Even after the lockdown is lifted, problems are likely to persist in the form of manpower shortage and steel mills working at lower capacities. However, some of the large steel players have shifted to higher exports to tackle the low off-take in domestic market and steel production is expected to get supported to that extent.

Liquidity Position: Adequate

Liquidity is marked by adequate cash accruals in the near term against negligible repayment obligations (Rs.0.74 crore in FY21) and cash and cash equivalents of Rs.1.59 crore as on March 31, 2020. The working capital cycle

however deteriorated to 207 days in FY20 (144 days in FY19) due to increase in average collection days from 83 days in FY19 to 137 days in FY20. Further, SCFL has not availed the moratorium benefit under the RBI's COVID-19 regulatory package. Nonetheless, the average utilisation of fund based limits continued to remain low at ~2% during the last 12 months ending May '20.

Analytical approach: Standalone Approach while factoring linkage from 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 (currently non-operational) at Meghalaya.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	134.44	89.14
PBILDT	18.85	2.57
PAT	10.48	(0.03)
Overall gearing (times)	0.03	0.02
Interest coverage (times)	14.55	6.41

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 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (14-Feb-20) 2)CARE A-; Negative (14-Nov-19) 3)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)
2.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3+	-	1)CARE A3+ (14-Feb-20) 2)CARE A2+ (14-Nov-19) 3)CARE A2+ (05-Jul-19)	1)CARE A2+ (18-Feb-19) 2)CARE A2+ (08-Jan-19)	1)CARE A2+ (26-Sep-17)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	20.00	CARE A3+	-	1)CARE A3+ (14-Feb-20) 2)CARE A2+ (14-Nov-19) 3)CARE A2+ (05-Jul-19)	1)CARE A2+ (18-Feb-19) 2)CARE A2+ (08-Jan-19)	1)CARE A2+ (26-Sep-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (14-Feb-20) 2)CARE A-; Negative / CARE A2+ (14-Nov-19) 3)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)

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.

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no. +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Mr. Abhishek Khemka
Contact no. +91 (0)33-40181601
Email ID: abhishek.khemka@careratings.com

Relationship Contact

Name: Mr. Lalit Sikaria
Contact no. +91 (0)33-40181607
Email ID: lalit.sikaria@careratings.com

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