Shyam Metalics & Energy Limited

March 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	304.67 (reduced from 363)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook: Stable)**
Short term Bank Facilities	302.00	**CARE A1+ (A One Plus)**	**Revised from CARE A1 (A One)**
Total Facilities	**606.67 (Rs. Six hundred Six crore and Sixty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Shyam Metalics & Energy Limited (SMEL) takes into account improvement in financial performance of the group {SMEL and Shyam Sel and Power Ltd. (SSPL)} in FY17 (refers to the period April 01 to March 31) and 9MFY18, improvement in debt protection metrics and improved liquidity position of the group. The revision in the ratings also takes into account successful completion of the on-going project in the group. The rating also factors in expected improvement in the performance of the group during the full year FY18.

The ratings continue derive strength from the experience of promoters in the steel industry, semi-integrated nature of operations, satisfactory capital structure and improvement in the capacity utilisation in FY17. The rating, however, continues to be constrained by volatility in raw material prices, forex fluctuation risk, moderate working capital intensive nature of operations and cyclical nature of the industry.

Ability of the group to maintain the healthy profitability margins and comfortable capital structure going ahead as envisaged would remain one of the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Shyam group, promoted by Mahabir Prasad Agarwal, started trading of steel products in 1981. In 1991, the group ventured into manufacturing of steel products and commenced production of billets in 1996. Over the years, the group has expanded its steel manufacturing operation by integrating its operation by adding products across the value chain of long steel products.

Semi-integrated nature of operations

The manufacturing operations of both SSPL & SMEL are semi-integrated in nature with ferro alloys, captive power plant, pellets, sponge, billets, rolled products facilities. Both the companies have sufficient captive power capacity to meet the power requirements of the plant.

SSPL and SMEL have coal linkage from Coal India Ltd. However, both SMEL & SSPL imports majority of its coal and manganese requirements as the same is of superior quality as compared to available in the domestic market whereas iron-ores fines are mainly procured from the domestic market.

High capacity utilization (CU)

The capacity utilization of most of the products manufactured by SMEL & SSPL has improved in FY17 vis-à-vis FY16 mainly on account of increase in domestic demand as well as in export market. The capacity utilisation of pellet and sponge iron increased from 86% and 84% in FY16 to 104% & 96% in FY17.

The export sales of the group also increased from Rs.186 crore in FY16 to Rs.474 in FY17. The group reported export sales of Rs.485 crore in 9MFY18.

Improvement in the financial performance of the group in FY17 & 9MFY18

Financial performance of the group was marked by increase in total operating income by around 29% in FY17 vis-à-vis FY16 on the back of increase in domestic and export demand. The increase in sales was mainly driven by increase in sales quantity of ferro alloys, pellets, sponge iron and billets and improved sales realization of ferro alloys. The operating margin of the group improved in FY17 vis-à-vis FY16 on account of inventory gain along with decline in power cost and higher absorption of fixed

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

cost due to higher capacity utilisation of the company in FY17 vis-à-vis FY16. Interest cost of the group declined on account of gradual repayment of term debt obligation during FY17. The company earned PAT of Rs.81.01 crore in FY17 vis-à-vis loss of Rs.69.18 crore in FY16.The loss in FY16 was mainly due to change in reporting from Indian GAAP to IND AS. The group earned cash accrual of Rs.278 crore (Rs.118 crore in FY16) vis-à-vis debt repayment of around Rs.138 crore in FY17.

In 9MFY18 (refers to the period April 01 to December 31), the group reported PBILDT of Rs.457 crore on a turnover of Rs.2534 crore. The operating margin of the company improved on the back of improvement in capacity utilisation of existing facility along with starting up with the production of enhanced capacity in Oct'17 and better sales realizations. The interest cost of the company declined on the back of repayment of existing term loan and lower utilisation of working capital borrowing.

Satisfactory capital structure and debt protection metrics

Debt equity ratio of the company improved as on March 31, 2017 vis-à-vis March 31, 2016 on the back of repayment of term debt obligation coupled with accretion of profit. Overall gearing ratio of the company continued to remain satisfactory at 0.44x as on March 31, 2017 vis-à-vis 0.45x as on March 31, 2016. Capital structure of the group further improved substantially in 9MFY18 due to repayment of debt and accretion of profits.

Total debt to GCA of the company also improved on the back of healthy cash accrual generated by the company in FY17 vis-à-vis FY16. The interest coverage ratio of the company also improved in FY17 vis-à-vis FY16 on the back of higher PBILDT level coupled with decline in interest cost on account of repayment of term loan in FY17 vis-à-vis FY16.

The interest coverage ratio of the group also improved significantly and stood at 15.76x in 9MFY18 vis-à-vis 6.15x in FY17. Total debt to PBILDT of the group also improved and stood at 0.57x as on December 31, 2017 vis-à-vis 2.27x as on March 31, 2017.

Comfortable liquidity position

The liquidity position of the group remained comfortable with cash and cash equivalent (including mutual fund) Rs.253.63 crore as on December 31, 2017 along with un-utilized credit line of around Rs.340 crore.

Successful completion of project

The group has been able to complete the project within the stipulated timeline without any cost overrun. The group was able to commence operations of the additional facilities from October 2017. Despite, having sanctioned term loan for the recently completed project, the group has funded majority of the project through internal accruals to complete the project.

Key Rating Weaknesses

Profitability susceptible to volatility in raw-material prices

The raw material [i.e. iron ore fines, coal, manganese ore, etc.] is the largest component of total cost of sales of steel products, accounting for 74% in FY17 (79% in FY16). Given that raw-material forms major cost component of total cost of sales and the prices of which are volatile in nature, the profitability is susceptible to fluctuation in raw-material prices.

Foreign exchange fluctuation risk

SMEL & SSPL are net foreign exchange exporter due to high export sales in FY17 vis-à-vis FY16. The reliance on imported coal and manganese ore and the imported raw-material is generally funded through foreign currency working capital loan. Both the entities has also availed USD denominated ECB loan for its expansion project. The management does not have any fixed policy for hedging its foreign exchange fluctuation risk which exposes the profitability to fluctuation in foreign exchange movement. However, depending upon the market scenario the management hedges its foreign currency exposure through forward cover.

Cyclical nature of steel industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion impact the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Moderate working capital intensive nature of operations

Despite being working capital intensive nature of business, the group is been able to manage its working capital efficiently and accordingly the liquidity position of the group is highly comfortable as evident from its low utilisation from working capital limit which stood at 24% during 12 months ended November 2017.

This apart, the group has already done majority of its expansion capex and does not have plans to do any other major debt-funded capex going forward. Accordingly liquidity is expected to remain comfortable.

Analytical approach:

Consolidated financials of SSPL & SMEL has been taken into consideration on account of same promoter group, financial linkages between the companies and same line of business. The reported consolidated financials also takes into account financials of Damodar Aluminium Pvt Ltd, Singhbhum Steel & Power Pvt. Ltd., Shyam Minimet Africa (P) Ltd. and Shyam Business Solutions Pvt Ltd. However such other companies are mainly investment companies with no major operations.

Applicable Criteria

Rating Methodology: Factoring Linkages in Ratings
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies

About the Group

The Shyam group is promoted by Kolkata-based Mr. Mahabir Prasad Agarwal and is mainly engaged in iron & steel and ferro alloys business. The group started trading of steel products in 1981 and ventured into manufacturing of steel products through Shyam Sel and Power Ltd (SSPL) in 1991. SSPL started commercial production of billets in 1996. Over the years, SSPL integrated its operation by adding products/facilities across the value chain of long steel products (i.e. ferro alloys, pellet, sponge, billet, TMT bars and captive power plant). SSPL has six manufacturing units, all located in Burdwan district of West Bengal.

The group expanded its operation in Odisha through Shyam Metalics & Energy Ltd (SMEL) in 2002 as Shyam DRI Power Ltd. Its name was changed to the current name in January 2010. SMEL is engaged in manufacturing of ferro alloys, coal washery, pellet, sponge, billet, TMT bars, steel pipes and captive power plant).

The day-to-day affairs of SMEL are looked after by the Mr. Brij Bhushan Agarwal, son of Mr. Mahabir Prasad Agarwal with adequate support from a team of experienced professionals.

Financials of Shyam Metalics & Energy Limited (Consolidated)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1735.75	2238.71
PBILDT	165.54	317.38
PAT	-69.18	81.01
Overall gearing (times)	0.41	0.40
Interest coverage (times)	2.71	6.15

A: Audited

Status of non-cooperation with previous CRA:

Nil

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.*

Analyst Contact:
Name: Mr. Anil More
Tel: 033-4018 1623
Cell: +91 8444867144
Email: anil.more@careratings.com

For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of 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	-	-	-	250.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	302.00	CARE A1+
Fund-based - LT-Term Loan	-	-	Sep-2022	54.67	CARE A+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE A+; Stable	-	1)CARE A; Stable (12-Jan-17)	-	-
2.	Non-fund-based - ST-BG/LC	ST	302.00	CARE A1+	-	1)CARE A1 (12-Jan-17)	-	-
3.	Fund-based - LT-Term Loan	LT	54.67	CARE A+; Stable	-	1)CARE A; Stable (12-Jan-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691