Shyam Metalics & Energy Limited

March 06, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Proposed Commercial Paper (CP) issue*	**50.00**	**CARE A1+ (A One Plus)**	**Assigned**
Total	**50.00 (Rupees Fifty Crore only)**		

**carved out of the sanctioned working capital limits of the company*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Shyam Metalics and Energy Limited (SMEL) draw strength from the experience of promoters in the iron and steel industry, semi-integrated nature of operations, high capacity utilisation, healthy operational and financial performance of the group during FY19 (refers to the period from April 1 to March31), albeit moderation witnessed in 9MFY20, satisfactory financial risk profile and successful completion of expansion project in SMEL and Shyam Sel and Power Ltd (SSPL). The rating, however, continues to be constrained by the susceptibility of profit margin to volatility in input costs, exposure to forex fluctuation risk and presence in inherently cyclical steel industry.

Key Rating Sensitivities

Positive Factor:

1. Ability to maintain healthy financial risk profile along with growth in scale of operations (~25% p.a) and PBILDT margin of over 23% on sustained basis.

Negative Factor:

1. Decline in PBILDT margins below 15% on sustained basis.
2. Decline in free cash and liquid of investment below Rs.100 crore on sustained basis.
3. Any major debt laden capex undertaken by the company. Leading to deterioration in capital structure (overall gearing ratio above 0.50x) and debt coverage indicator (total debt to GCA above 2.00x) on sustained basis

Detailed description of the key rating drivers

Key Rating Strength

Experienced promoters

Shyam Metalics group, promoted by Mahabir Prasad Agarwal, started trading of steel products in 1981. Presently his son Mr. Brij Bhushan Agarwal is responsible for strategic planning and overall adminisstration of the group. Further, the group is supported by senior management team having average metal industry experience of more than 10 years. 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 along with backward integration through captive power plant and Railway sidings.

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 and rolled products facilities. Both the companies have sufficient captive power capacity to meet the power requirements of the plant. The company doesn't have captive mines for minerals. For coal, the company meets its requirement through linkage with Coal India and through imports. For iron ore it mostly procures it from miners in Odisha, while manganese ore is mostly imported.

High capacity utilization (CU)

The capacity utilization of all the products manufactured by SMEL & SSPL continued to improve as reflected from significant revenue growth in FY19 vis-à-vis FY18 on account of increase in demand for company's products in both domestic as well as export market.

Healthy financial performance of the group during FY19, albeit moderation witnessed in 9MFY20

The consolidated total operating income of the group increased in FY19 vis-à-vis FY18 on the back of increase in sales realization and volume growth across all the product segments.

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

The PBILDT margin of the group improved in FY19 vis-à-vis FY18 primarily owing to significant growth in sales volume which resulted in higher absorption of fixed cost due to higher capacity utilization. PAT margin and interest coverage ratio remained stable in FY19 despite increase in interest charges.
During 9MFY20, the group reported PBILDT margin of 16.05% as against 21.91% in FY19. The moderation in profitability was largely due to lower realizations on account of subdued industry scenario. Going forward for FY20 PBILDT margin it is expected to remain broadly in line with 9MFY20.

Satisfactory financial risk profile
Overall gearing ratio of the company continued to improve and remain comfortable at 0.32x as on March 31, 2019 vis-à-vis 0.41x as on March 31, 2018. Total debt to GCA also improved to 1.02x as on Mar'19 as against 1.47x as on Mar'18. Net debt levels however increased in Dec 2019 over Mar'19 majorly on account of increase in term loan for capex coupled with increase in working capital borrowings to fund the increase in inventory levels. Despite such increase, it stood at comfortable levels. Going forward, with usage of accumulated inventory and schedule debt repayment, CARE expects the net debt level to reduce and availability of liquidity cushion will be a key monitorable. Further, one of its group companies has acquired Jilling iron ore mines (the transfer of which is subject to final approval by Honorable Supreme Court of India as the matter in under litigation) in the recent auctions and management has articulated that going forward there would be no funding support extended for the same from SSPL and SMEL.

Key Rating Weakness
Profitability susceptible to volatility in raw-material prices
The raw material is the largest component of total cost of sales of steel products, accounting for 76% in FY19 (75% in FY18). 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. Simultaneously the volatility is also witnessed in finished goods prices.

Foreign exchange fluctuation risk
SMEL & SSPL are net foreign exchange exporter (Rs.87.04 crore in FY19 vis-à-vis Rs.123.48 crore in FY18) due to high export sales. Both the entities has also availed USD denominated ECB loan for its expansion project. The group has foreign currency term loan exposure of around Rs.109.29 crore as on March 31, 2019. The management does not fully hedge its forex exposure and usually hedges only the near term forex payables, which exposes the profitability to fluctuation in foreign exchange movement.

Cyclical nature of steel industry along with regulatory risk
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, domestic steel producers also face stiff competition in the form of low-cost imports and such imports put pressure on steel prices and profit margins of industry players. The competition exits not only in domestic markets but in the export market also.

Liquidity analysis – Strong
The liquidity position of the group remained satisfactory as evident from fund based working capital limit which stood at 45.09% and 67.28% during 12 months ended Jan 2020 for SSPL and SMEL respectively indicating availability of buffer in the form of unutilized limits. Further the liquidity is also supported by group's free cash & liquid investment of Rs.141.21 crore approx. as on Dec 31, 2019. Free cash & liquid investments have declined from Mar'19 levels, as the company is deploying its funds in accumulation of raw material (mainly iron ore) in anticipation of supply issues post Mar'20 in the wake of ongoing iron ore mines auctions. Total inventory increased to Rs.1,189 cr as on Dec'19 as against Rs.732 cr as on Mar'19. During FY19, the group generated GCA of Rs.790.87 crore. Further, group has a term debt repayment obligation of Rs.79.25 crore for FY20 and the cash accruals are expected to be sufficient to meet the same.

Analytical approach: Combined
SSPL is wholly owned subsidiary of SMEL, both SSPL and SMEL are engaged in similar business with operational linkages under same management and having cash flow fungibility. Accordingly, we have considered consolidated financials of SMEL, wherein along with SSPL (which is only operational subsidiary) there are 7 more subsidiaries and step down subsidiaries which 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 & Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating methodology for Steel

About the Company

The Shyam group is promoted by Kolkata-based Mr. Mahabir Prasad Agarwal and is mainly engaged in manufacturing of iron & steel products and ferro alloys. The group started with trading of steel products in 1981 and ventured into manufacturing of steel products through Shyam Sel and Power Ltd (SSPL) in 1991. 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's manufacturing facility is 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 with captive power plant).

Financials of Shyam Metalics & Energy Limited (Consolidated)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3813.73	4666.57
PBILDT	766.62	1022.54
PAT	518.52	635.85
Overall gearing (times)	0.41	0.32
Interest coverage (times)	15.80	15.96

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
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	50.00	CARE A1+

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	250.00	CARE A+; Stable	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (05-Mar-18)	1)CARE A; Stable (12-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	289.00	CARE A1+	1)CARE A1+ (10-Oct-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (05-Mar-18)	1)CARE A1 (12-Jan-17)
3.	Fund-based - LT-Term Loan	LT	340.08	CARE A+; Stable	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (05-Mar-18)	1)CARE A; Stable (12-Jan-17)
4.	Non-fund-based - LT-Letter of credit	LT	30.00	CARE A+; Stable	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)	-	-
5.	Non-fund-based - LT-Bank Guarantees	LT	13.00	CARE A+; Stable	1)CARE A+; Stable (10-Oct-19)	-	-	-
6.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	-	-	-

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

Analyst Contact
Group Head Name – Anil More
Group Head Contact no- +91-8444867144
Group Head Email ID- anil.more@careratings.com

Business Development Contact
Name: Lalit Sikaria
Contact no. : +919830386869
Email ID: lalit.sikaria@careratings.com

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