Shyam Metalics & Energy Limited

October 10, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	633.08 (enhanced from 427.36)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	289.00 (reduction from 302.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**922.08 (Rupees Nine Hundred Twenty Two crore and Eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Shyam Metalics and Energy Limited continues to draw strength from the experience of promoters in the iron and steel industry, semi-integrated nature of operations, high capacity utilisation, healthy financial performance of the group during FY19 (refers to the period from April 1 to March31), albeit moderation witnessed in Q1FY20, satisfactory financial risk profile and completion of expansion project in SMEL coupled with reduction in capex size of SSPL. The rating, however, continues to be constrained by the susceptibility of profit margin to volatility in input costs, due to lack of captive sources of basic raw materials, exposure to forex fluctuation risk and presence in inherently cyclical steel industry.

Ability of the group to maintain the liquidity position, capital structure and profitability margins in the wake of inherent cyclicality associated with steel industry and volatility in key raw material prices are key rating sensitivities. Moreover, going forward, any large debt laden capex will be a key rating monitorable.

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 and for coal, the company meets its requirement through linkage with Coal India and through imports and 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 Q1FY20

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.

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 Q1FY20, the group reported PBT of Rs.142 crore on total operating income of Rs.1,119 crore. The deterioration in profitability was largely due to declining realisations on account of subdued industry scenario.

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

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. During FY20, the term loan level is expected to increase due to capex, however, despite such expansion the overall gearing of the group is expected to remain comfortable owing to accretion of profits coupled with schedule repayment of loan.

Successful completion of expansion project in SMEL and reduction in capex size of SSPL

SSPL had initially planned for expansion of project for Rs.1012 crore approx. by availing debt of Rs.552 crore and balance through internal accruals. However, considering the subdued industry scenario the company has postponed its phase 3 and 4 and continued with phase 1 and 2 whose size of the project is Rs.532.40 crore being funded entirely through internal accruals. Till July 31, 2019, the company has already spent Rs.350 crore and the project is expected to get fully commissioned by January 2020. Further, SMEL has successfully completed the planned expansion for its manufacturing facilities by the end of June 2019.

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 37.12% and 62.43% during 12 months ended May 2019 for SSPL and SMEL respectively indicating availability of unutilized limit of Rs.157 and Rs.93cr respectively. Further the liquidity is also supported by group's free cash & liquid investment of Rs.275.06 crore as on Mar 31, 2019. During FY19, the group generated GCA of Rs.790.87 crore against a term debt repayment obligation of Rs.83.72 crore.

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 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
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	289.00	CARE A1+
Fund-based - LT-Term Loan	-	-	Dec' 2028	340.08	CARE A+; Stable
Non-fund-based - LT-Letter of credit	-	-	-	30.00	CARE A+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	13.00	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 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 (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+ (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 (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 (05-Oct-18)	-	-
5.	Non-fund-based - LT-Bank Guarantees	LT	13.00	CARE A+; Stable	-	-	-	-

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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