Shyam Metalics & Energy Ltd

January 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	363.00	**CARE A; Stable (Single A; Outlook:Stable)**	Assigned
Short-term Bank Facilities	302.00	**CARE A1 (A One)**	Assigned
Total Facilities	**665.0 (Rupees Six hundred sixty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Shyam Metalics & Energy Ltd (SMEL) derive strength from the experience of the promoters in steel industry, semi-integrated nature of operations, satisfactory capital structure and comfortable liquidity position. The ratings also take into account moderate capacity utilization and moderate financial performance in FY16 (refers to the period from April 1 to March 31) & H1FY17.

The ratings, however, remain constrained by project implementation risk, profitability susceptible to volatility in raw-material prices, foreign exchange fluctuation risk, working capital intensive nature of business and cyclical nature of steel industry. The ability of the group to successfully complete the project within proposed time and budget, efficient utilization of existing facilities and efficient management of working capital would remain the key rating sensitivities.

Detailed description of the key rating drivers

In FY16, the group reported PBILDT of Rs.186 crore (as against Rs.304 crore in FY15) on total operating income of Rs.1,745 crore (as against Rs.2,240 crore in FY15). While the capacity utilization of most of the products has slightly improved in the FY16 over FY15, the operating performance moderated in FY16 mainly due to sharp decline in finished goods prices. However, the debt protection metrics continued to remain comfortable with interest coverage and total debt/GCA relatively stable at 3.8x and 3.9x as on Mar 31, 2016, respectively, due to sharp decline in interest expense on the back of reduction in total debt and significant amount of non-operating income from sale of investments.

The capital structure continued to remain comfortable with overall gearing improving from 0.98x as on Mar 31, 2015 to 0.69x as on Mar 31, 2016. The liquidity position also remained comfortable with low utilization of working capital limit (~45% during 12 month ended Oct-16).

The group has around two decades of experience in the manufacturing of steel products. Further, the manufacturing operations of the group are semi-integrated in nature with presence in across the value chain of steel products - ferro alloys, captive power plant, pellets, sponge, billets, rolled products facilities.

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

The group has taken up capex aggregating around Rs.450 crore, out of which it has already incurred around Rs.360 crore till Sep.30, 2016. The capex is mainly financed through internal accruals/equity and expected to be completed in phases by Sep 2017.

The profitability is susceptible to fluctuation in raw-material prices (forming 73% of cost of sales). The group is also exposed to foreign exchange fluctuation risk as it is a net importer on the back of high reliance on imported coal and manganese ore coupled with foreign currency working capital loan and ECB loan availed for project. The group's business is working capital intensive due to requirement of holding high raw-material inventory and to provide credit period to its customers in view of intense competition in the industry.

Analytical approach: For arriving at the ratings, CARE has combined the business and financial risk profile of Shyam Sel & Power Ltd (SSPL) and Shyam Metalics & Energy Ltd (SMEL) as both the companies are engaged in similar line of operation under a common management and have financial and operational linkages.

Applicable Criteria

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

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 industry. The group started trading of steel products in 1981 and ventured into manufacturing of steel products through 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 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.

During FY16, the combined PAT stood at Rs.45 crore (as against Rs.101 crore in FY15) on total operating income of Rs.1,745 crore (as against Rs.2,240 crore). During H1FY17, the combined PBILDT stood at Rs.115 crore on net sales of Rs.988 crore.
On a standalone basis SMEL reported PBILDT of Rs.71 crore and PAT of Rs.29 crore on total operating income of Rs.863 crore in FY16. During H1FY17, SMEL reported PBILDT of Rs.48 crore on total operating income of Rs.435 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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.*

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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 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	-	-	-	302.00	CARE A1
Fund Based - LT-Term Loan	-	-	March 2023	113.00	CARE A; Stable

Annexure-2

Rating History (Last three years)

		Current Ratings			Chronology of Rating history for past three years			
Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014	Date(s) & Rating(s) assigned in 2012-2013
1.	Fund Based - LT-Cash Credit	LT	250.00	CARE A; Stable				
2.	Non-Fund Based - ST-BG/LC	ST	302.00	CARE A1				
3.	Fund Based - LT-Term Loan	LT	113.00	CARE A; Stable				

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