Shyam Metalics and Energy Limited

October 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	427.36 (enhanced from 304.67)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	302.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total facilities	**729.36 (Rupees Seven hundred Twenty Nine crore and Thirty Six 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 the promoters in the steel industry, semi-integrated nature of operations, high capacity utilisation, improvement in the consolidated financial performance during FY18 & Q1FY19 and healthy financial risk profile marked by comfortable capital structure and debt protection metrics. The rating, however, is constrained by profitability being susceptible to volatility in raw-material prices, project execution risk, forex fluctuation risk and cyclical nature of the industry.

Ability of the group to increase the scale of operations while maintaining the profitability margins and capital structure going ahead and timely completion of the ongoing project without any cost over-run would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Shyam Metalics group, promoted by Mahabir Prasad Agarwal, started trading of steel products in 1981. Mr. Agarwal is responsible for strategic planning and overall administration of the group. Further, the group is supported by senior management team having average metal industry experience of more than 10 years. 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. Further, both SMEL & SSPL imports majority of its coal and manganese requirements whereas iron-ores fines are mainly procured from the domestic market.

High capacity utilization (CU)

The capacity utilization of all the products manufactured by SMEL & SSPL continued to remain high as reflected from significant revenue growth in FY18 vis-à-vis FY17 on account of increase in demand from both domestic as well as export market.

Improvement in the financial performance of the group during FY18 & Q1FY19

The total operating income of the group increased significantly in FY18 vis-à-vis FY17 on the back of increase in the domestic steel demand along with increase in the export sales during FY18. The increase in sales was primarily driven by significant increase in sales realization of all product segment coupled with volume growth witnessed across all products.

The PBILDT margin of the group improved in FY18 vis-à-vis FY17 primarily owing to growth in sales volume leading to better fixed cost absorption and better product pricing. Further, better industry scenario resulted in improvement in spread in each product category which also supported the increase in margin to an extent. Consequently, the PAT margin also improved in FY18 vis-à-vis FY17. In Q1FY19 (refers to the period April 01 to June 30), the group clocked a turnover of Rs.1,238.50 crore with profit before tax of Rs.212 crore. The interest coverage indicator improved during FY18 on the back of lower interest expense and healthy cash accrual.

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

Healthy financial risk profile

The overall gearing of the group further improved in FY18 vis-à-vis FY17 on the back of repayment of term debt obligation and lower working capital utilization on balance sheet date coupled with accretion of profit to reserves. Total debt to GCA of the group also improved on the back of healthy cash accrual generated by the company in FY18 vis-à-vis FY17.
Further, the group is at an advanced stage in the IPO process and the expected proceed is around Rs.909 crore which will be primarily used to repay existing debt of the group. The overall gearing is expected to improve further with the IPO proceed.

Key Rating Weaknesses

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 75% in FY18 (75% in FY17). 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.

Project risk

Both SSPL & SMEL have taken up project for expansion of capacities of various products which are to be funded through a mix of term debt and internal accruals at debt equity ratio of 3:2. SSPL is currently carrying out an expansion project of approx. Rs.1000 crore while SMEL is carrying out an expansion project of approx. Rs.425 crore. The timely completion of the ongoing expansion projects without any cost over-run will be key to the financial performance of the company in the near to medium term. Further, the debt laden capex plan is likely to impact the capital structure of the group.

Foreign exchange fluctuation risk

SMEL & SSPL are net foreign exchange exporter due to high export sales. The reliance on imported coal and manganese ore and the imported raw-material is generally funded through foreign currency working capital loan. 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.

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 Business Solutions Pvt Ltd, Shyam Ores (Jharkand) Pvt Ltd and Renaissance Hydro Power 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 company

The Shyam Metalics group is promoted by Kolkata-based Mr. Mahabir Prasad Agarwal and the group is mainly engaged in the manufacturing of iron & steel and ferro alloys products. The group started trading of steel products in 1981 and ventured into manufacturing of steel products through 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). 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, pellet, sponge, billet, TMT bars, steel pipes and captive power plant). The group operates three manufacturing plants, one in Odisha and two in West Bengal.

Financials of Shyam Metalics & Energy Limited (Consolidated)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2235.93	3806.20
PBILDT	314.60	759.10
PAT	70.42	518.52
Overall gearing (times)	0.47	0.43
Interest coverage (times)	6.10	15.64

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

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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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
Fund-based - LT-Term Loan	-	-	March 2028	147.36	CARE A+; Stable
Non-fund-based - LT-Letter of credit	-	-	-	30.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	302.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Mar-18)	1)CARE A; Stable (12-Jan-17)	-
2.	Non-fund-based - ST-BG/LC	ST	302.00	CARE A1+	-	1)CARE A1+ (05-Mar-18)	1)CARE A1 (12-Jan-17)	-
3.	Fund-based - LT-Term Loan	LT	147.36	CARE A+; Stable	-	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	-	-	-	-

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