Shyam Metalics and Energy Limited

December 17, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	371.37	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)**
Short Term Bank Facilities	289.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**660.37 (Rs. Six Hundred Sixty Crore and Thirty-Seven Lakhs Only)**		
Commercial Paper (Carved out)*	50.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Short Term Instruments	**50.00 (Rs. Fifty Crore Only)**		

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

Detailed Rationale & Key Rating Drivers

CARE has upgraded the rating for long term facilities of Shyam Metalics & Energy Limited (SMEL) to 'CARE AA-; Stable' from 'CARE A+; Stable'. The rating for short-term facilities and commercial paper has been reaffirmed at 'CARE A1+'.

The revision in rating takes into account the improvement in the financial performance of the Shyam Metalics Group [SMEL and its key subsidiary Shyam Sel & Power Limited (SSPL) collectively referred to as the Shyam Metalics Group] during H1FY21 despite macroeconomic headwinds and operational challenges due to Covid-19 pandemic albeit moderation in the financial performance in FY20 (refers to the period from Apr 01 to Mar 31). It also factors in the strengthening of the financial risk profile with prepayment of term debt while maintaining strong liquidity position, which is thereby expected to be sustained over the medium term.

The ratings continues to derive strength from the rich experience of promoters in the iron and steel industry, semi-integrated nature of operations with diversified customer portfolio, strategic locational advantage and satisfactory operational efficiency. It also factors in the successful commissioning of the capacity expansion initiatives.

The above rating strengths are, however, tempered by company's presence in highly cyclical steel industry, susceptibility of profit margins to forex risk and volatility in key input prices.

<u>Rating Sensitivities</u>

Positive Factors - *Factors that could lead to positive rating action/upgrade:*

- Sustainable growth in scale of operations with improvement in PBILDT margins beyond 20%.
- Ability of the group to maintain the strong liquidity position, in form of working capital lines and free cash and liquid investments

Negative Factors - *Factors that could lead to negative rating action/downgrade:*

- Significant deterioration in the business performance, resulting in moderation of the operating margins below 10% on a sustained basis
- Any major debt laden capex undertaken by the company leading to deterioration in capital structure (overall gearing ratio beyond 0.50x) and debt coverage indicator (Total debt/ GCA beyond 2.00x) on sustained basis
- Decline in free cash and liquid investments below Rs.200 crore on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong track record of operation

SMEL and its key subsidiary, Shyam SEL & Power Limited (SSPL) (collectively called as 'Shyam Metalics Group), promoted by Mr. Mahabir Prasad Agarwal, started trading of steel products in 1981. Mr. Agarwal is responsible for strategic planning and overall administration of the group. The day-to-day affairs of the group are looked after by the Mr. Brij Bhushan Agarwal, son of Mr. Mahabir Prasad Agarwal. Further, the group is supported by senior management team having average metal industry experience of more than a decade. 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 with diversified customer portfolio

The manufacturing operations of Shyam Metalics Group are semi-integrated having manufacturing facilities of both intermediate products (backward integration) like sponge iron, billets and value added end products like TMT bars & structural for the end user segment. The group also has coal washery and pellet units along with captive power plant and waste heat recovery unit which enable cost efficiencies across the value chain. The group has sufficient captive power capacity to meet the power requirements of the plant.

Further, revenue stream of the Group continues to be diversified with top 10 customers contributing nearly 29% of the total revenue in FY19 and FY20 with no single customer contributing more than 7% of the revenues.

Strategic location with proximity to raw material sources and linkages with suppliers enhance raw material security and keep landed costs low

The steel manufacturing facilities of the Group (in Jamuria, West Bengal) are located in proximity to the sources of key raw materials, iron ore and coal, which lead to low landed cost of raw materials (further own railway sidings results in savings of freight costs). The Group has linkages with the Coal India Limited, Odisha Mining Corporation Ltd among others for procurement of coal and mine owners (NMDC) for its iron ore requirements. The raw material supply linkages meet a major portion of the Group's overall requirement, resulting in enhanced raw material security.

Satisfactory operational efficiency

The capacity utilization of all the products continued to remain satisfactory over the last 3 fiscals (FY18-FY20) with pellets plant operating beyond 100% capacity resulting in improvement in scale of operations. The scale of operations is expected to increase in the medium term given the completion of the recent capacity expansion in SSPL (COD: Feb 2020). The group has a diversified product mix with multiple points of sale across the value chain including pellets, sponge iron, billets, TMT bars and structural products as well as ferro alloys.

Improvement in the financial performance of the company during H1FY21 albeit moderation in the financial performance in FY20

The consolidated total operating income of the group moderated by ~6% in FY20 to Rs.4,393.17 crore mainly due to lower realisations across all the product segment incidental to subdued demand and the slowdown in the economy. Accordingly, PBILDT margin moderated sharply to 15.24% (Rs.669.51 crore) in FY20 vis-à-vis 21.91% (Rs.1022.54 crore) during FY19. The operating margin was also impacted due to increase in costs of raw materials and other input costs which was not passed on to the customers. Accordingly, GCA declined to Rs.534.63 crore in FY20 from Rs.790.87 crore in FY19, however continued to remain comfortable vis-à-vis debt repayment obligation of Rs.66 crore in FY20.

Despite the imposition of lockdown to curb the outbreak of Covid-19 pandemic, the group reported sales of Rs.2,154 crore in H1FY21 which further increased to Rs.3,224 crore (approx.) till November 2020.

Satisfactory financial risk profile

Overall gearing ratio though moderated, continued to remain comfortable at 0.48x as on March 31, 2020 vis-à-vis 0.32x as on March 31, 2019. Total debt to GCA also moderated, though remained satisfactory, to 2.53x as on Mar'20 as against 1.02x as on Mar'19 due to decline in GCA levels coupled with increase in the working capital borrowings as on March 2020 to fund the increase in inventory levels (anticipating raw material shortage ahead of iron ore mining auctions).

SMEL has so far prepaid term debt of around Rs.275 crore leading to further strengthening of the capital structure.

Key Rating Weaknesses

Profitability susceptible to volatility in the raw-material prices

The raw material is the largest component of total cost of sales of steel products, accounting for 73% in FY20 (76% in FY19). 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

The group is net foreign exchange exporter and consequently, the risk arising out of exchange rate difference is mitigated to a large extent by natural hedge mechanism. The company reported forex loss of Rs.13.43 crore in FY20 and Rs.15.81 crore in FY19.

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.

Industry Outlook:
For the whole year FY21, crude steel production is expected to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half of the current fiscal. While large and integrated players have reported faster return to normalcy after Covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility. An up-cycle in international steel prices is expected in H2FY21 due to increased steel consumption mainly by China on the back of stimulus package unveiled by the Chinese government which is keeping demand for industrial metals high. Firm international prices and pick up in domestic demand will also boost domestic steel prices. Steel prices have already exceeded pre-covid levels and are currently at a marginal premium to world export prices.

Liquidity Position: Strong
The liquidity position of the group remained strong with healthy cash accruals of Rs.514 crore vis-à-vis debt repayment obligation of Rs.66.07 crore in FY20 and average fund based working capital utilization at around 43% for SSPL and 54% for SMEL for the past 12 months ended October 2020 indicating availability of satisfactory buffer in the form of unutilized credit lines.
The liquidity is further supported by free cash & liquid investment of Rs.270 crore (approx.) as on October 31, 2020 (Rs.275.06 crore as on March 31, 2019 and Rs.148 crore as on Mar 2020). Free cash & liquid investments have declined in Mar 2020 vis-à-vis Mar'19 levels, as the company had deployed its funds in accumulation of raw material (mainly iron ore) in anticipation of supply issues post Mar'20 in the wake of iron ore mining auctions. With low capex plan in the near future, the group plans to be long term debt free over the medium term and has accordingly prepaid term debt of around Rs.275 crore in the current fiscal (till date).
Further, SSPL has not availed moratorium/deferment (including extension) under Reserve Bank of India's COVID-19 regulatory package however SMEL has availed moratorium/deferment only till May 2020 (with no further extension).

Analytical approach: Consolidated
While arriving at the rating, consolidated financials of Shyam Metalics & Energy Ltd (SMEL) have been considered which includes Shyam Sel & Power Limited (key subsidiary) and 12 other subsidiaries and step down subsidiaries, 3 associates and 1 JV which are mainly investment companies with no major operations. Both SSPL and SMEL (together referred to as the Shyam Metalics Group), are engaged in similar business under common management and exhibit operational linkages & cash flow fungibility.
The list of entities whose financials have been consolidated has been mentioned under Annexure 5.

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short term Instruments
Complexity level of rated instruments
Liquidity Analysis of Non-Financial Sector Entities
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Rating Methodology –Factoring Linkages in Rating

About the Company
The Shyam Metalics 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 iron, billet, TMT bars/Structural products 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 (the holding company of SSPL) is also semi-integrated and has manufacturing facilities for ferro alloys, pellet, sponge iron, billet, TMT bars/structural products. Further, both SSPL and SMEL have their own railway sidings.

Brief Financials – Consolidated (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4666.57	4393.17
PBILDT	1022.54	669.51
PAT	635.85	340.25
Overall gearing (times)	0.32	0.48
Interest coverage (times)	15.96	7.80

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

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 AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	289.00	CARE A1+
Fund-based - LT-Term Loan	-	-	Dec, 2028	78.37	CARE AA-; Stable
Non-fund-based - LT-Letter of credit	-	-	-	30.00	CARE AA-; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	13.00	CARE AA-; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA-; Stable	-	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (05-Mar-18)
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)
3.	Fund-based - LT-Term Loan	LT	78.37	CARE AA-; Stable	-	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (05-Mar-18)
4.	Non-fund-based - LT-Letter of credit	LT	30.00	CARE AA-; 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 AA-; Stable	-	1)CARE A+; Stable (10-Oct-19)	-	-
6.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (06-Mar-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

1. Cash Credit Limit	**Detailed explanation**
A. Financial covenants	The margin applicable is 25% on stock and 25% on book debts (cover period of 90 days).
B. Non-financial covenants	Monthly stock statements to be submitted by the company within 20 days after the month to which it relates.
2. LC/BG Limit	
A. Financial covenants	10% margin in case of LC and BG with lead banker.
B. Non-financial covenants	Usance of LC will be restricted to the estimated operating cycle.
3. Term Loan Limit	
A. Financial covenants	Interest will be payable on monthly basis and interest will be calculated on 365 days.
B. Non-financial covenants	Compliance certificate from independent Chartered Accountant to be submitted within 180 days from the date of testing covenants

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - LT-Bank Guarantees	Simple
5.	Non-fund-based - LT-Letter of credit	Simple
6.	Non-fund-based - ST-BG/LC	Simple

Annexure 5: List of entities forming part of consolidated financials (as on March 31, 2020)

Sl No	Name of the company	Relationship	% holding
1	Shyam Sel & Power Ltd	Subsidiary	100
2	Damodar Aluminium Private Limited	Subsidiary	54.15
3	Singhbhum Steel & Power Ltd	Subsidiary	91.45
4	Shyam Ores (Jharkhand) (P) Ltd	Subsidiary	100
5	Renaissance Hydropower Private Ltd	Subsidiary	100
6	Kalinga Infra Projects Limited	Subsidiary	90
7	Whispering Developers (P) Ltd	Step down Subsidiary	67.57
8	Taurus Estates (P) Ltd	Step down Subsidiary	69.29
9	Shyam Energy Limited	Step down Subsidiary	87.12
10	Meadow Housing Private Limited	Step down Subsidiary	71.43
11	Hrashva Storage & Warehousing (P) Limited	Step down Subsidiary	87.11
12	Shree Sikhar Iron & Steel (P) Limited	Step down Subsidiary	99.91
13	Nirjhar Commodities (P) Limited	Step down Subsidiary	58.00
14	Keeons Tradecare (P) Limited	Associate	33.51
15	Meghna Vyapar (P) Limited	Associate	47.32
16	Kolhan Complex (P) Limited	Associate	49.88
17	MJSJ Coal Ltd	JV	9

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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