

Shyam Steel Manufacturing Limited

October 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
a. Long term Bank Facilities	-	-	Issuer not cooperating; Based on best available information. Rating reaffirmed and withdrawn.
b. Long term Bank Facilities [#]	-	-	Issuer not cooperating; Based on best available information. Rating reaffirmed and withdrawn.
c. Short term Bank Facilities [#]	-	-	Issuer not cooperating; Based on best available information. Rating reaffirmed and withdrawn.
Total	-		

Details of instruments/facilities in Annexure-1

#backed by unconditional and irrevocable guarantee extended by Shyam Steel Industries Limited

Detailed Rationale & Key Rating Drivers

CARE has continued the ratings assigned to the bank facilities of Shyam Steel Manufacturing Limited (SSML) at 'CARE BB+; Stable (Double B Plus; Outlook: Stable); ISSUER NOT COOPERATING/CARE BB+ (CE); Stable [Double B Plus (Credit Enhancement); Outlook: Stable]; ISSUER NOT COOPERATING/CARE A4+ (CE); [A Four Plus (Credit Enhancement)]; ISSUER NOT COOPERATING' and has simultaneously withdrawn it, with immediate effect.

The ratings assigned to facilities (b) and (c) above are based on credit enhancement in the form of unconditional & irrevocable corporate guarantee extended by Shyam Steel Industries Limited (SSIL). While arriving at the ratings, CARE has taken a combined view of SSIL and SSML.

The rating withdrawal is at the request of SSML and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

CARE had, vide its press release dated June 30, 2020, continued the ratings of SSML under the 'issuer non-cooperating' category. SSML has not provided information for monitoring of the rating and continues to be non-cooperative despite requests for submission of information including through e-mail dated October 21, 2020. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

Detailed description of the key rating drivers

At the time of last rating on June 30, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Exposure to volatility in prices of raw materials: Raw material consumption is the single largest cost component for SSIL and SSML. The major raw materials required for manufacturing billets are coal, iron ore and sponge iron. Billets are the main raw material for producing TMT bars and coal and iron-ore are required for producing sponge iron. The companies purchase iron ore and coal from the market. Any adverse movement in the raw material price without corresponding movement in finished good price might affect the performance of the company. Though the prices of finished goods move in tandem with raw material prices, there is a time lag.

Working capital intensive nature of operation: The operations of SSML and SSIL are working capital intensive in nature due to offering of credit period of one-two months to customers and policy of maintaining inventory for about two months. Thus, the companies have to rely upon the bank borrowings to fund the working capital requirement.

Intense competition from the unorganised sector: The Indian steel industry is characterised by high degree of fragmentation due to the presence of the large numbers of unorganised players. The company operates in Eastern India, which is a hub of steel plants. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-a-vis the customers. Further, the industry is cyclical in nature.

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

*Issuer did not cooperate; Based on best available information

Key Rating Strengths

Experienced promoter: SSIL, promoted by Beriwal family of Kolkata, is an established player in the steel industry in eastern India. The promoters have over six decades of experience in the business of steel & related products and have an established brand name. SSML was acquired by the promoters in 2011 as an integration initiative.

Established brand and diversified clientele: The group sells TMT bars under the brand name 'Shyam TMT' and the brand is well-accepted among the established construction & real estate players in West Bengal. The company sells its products to private parties, government bodies, dealers and retailers. SSIL has retail presence in West Bengal, Orissa, UP, North east and Bihar.

Increase in operating income in FY19 and moderate capital structure: Total combined operating income of SSIL and SSML increased by about 30% in FY19 over FY18. PBILDT margin also remained relatively stable. The overall gearing remained moderate at 0.47x as on March 31, 2019 and interest coverage continued to remain comfortable.

Captive Power Plant resulting in savings in power cost: SSIL and SSML together have a captive power capacity of 25 MW which results in savings in power cost and higher margins for the companies.

Analytical approach: CARE has taken a combined view considering that SSIL and SSML are in similar line of business with operational and financial linkages, common management and finance team. SSML is a step-down subsidiary of SSIL. SSIL holds 99.9% shares in Shyam Steel Energy Limited which in turn holds 100% in SSML.

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Policy in respect of Non Cooperation by Issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[Care's Policy on Default Recognition](#)

[Care's Methodology for Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Care's Methodology for Steel Industry](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Consolidation](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Criteria for Rating Credit Enhanced Debt](#)

About the Company

SSIL was promoted by Beriwal family of Kolkata and commenced commercial operation in October, 2003. The company is engaged in manufacturing of TMT bars and also has sponge iron and billets capacities as backward integration along with a captive power plant. The manufacturing facility is located in Durgapur, West Bengal. SSML is engaged in manufacturing of TMT bars and Billets at its manufacturing facility located in West Bengal. As a part of backward integration process, the company also operates sponge iron and Ferro Alloys unit along with a captive power plant.

Brief Financials (Rs. crore)- SSML	FY18 (A)	FY19 (A)
Total operating income	688.67	953.55
PBILDT	97.45	144.18
PAT	48.04	73.44
Overall gearing (times)	0.57	0.49
Interest coverage (times)	6.29	8.05

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

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	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Forward Contract	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn

**Issuer did not cooperate; Based on best available information*

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	-	-	1)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (30-Jun-20)	-	1)CARE BBB+ (SO); Stable; ISSUER NOT COOPERATING* (14-Mar-19)	1)CARE A (SO); Stable (25-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A4+ (CE); ISSUER NOT COOPERATING* (30-Jun-20)	-	1)CARE A2 (SO); ISSUER NOT COOPERATING* (14-Mar-19)	1)CARE A1 (SO) (25-Oct-17)
3.	Non-fund-based - ST-Forward Contract	ST	-	-	1)CARE A4+ (CE); ISSUER NOT COOPERATING* (30-Jun-20)	-	1)CARE A2 (SO); ISSUER NOT COOPERATING* (14-Mar-19)	1)CARE A1 (SO) (25-Oct-17)
4.	Term Loan-Long Term	LT	-	-	1)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (30-Jun-20)	-	1)CARE BBB+ (SO); Stable; ISSUER NOT COOPERATING* (14-Mar-19)	1)CARE A (SO); Stable (25-Oct-17)
5.	Term Loan-Long Term	LT	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (30-Jun-20)	-	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (14-Mar-19)	1)CARE A; Stable (25-Oct-17)
6.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (14-Mar-19)	1)CARE A1 (08-Dec-17)
7.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (14-Mar-19)	-
8.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (14-Mar-19)	-
9.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (14-Mar-19)	-

**Issuer did not cooperate; Based on best available information*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple
3.	Non-fund-based - ST-Forward Contract	Simple
4.	Term Loan-Long Term	Simple

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.

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