

No. CARE/KRO/RL/2020-21/2074

Shri Deepak Agarwal

Director

Shyam Sel and Power Limited

S. S. Chambers, 5, C. R. Avenue, 2nd Floor,

Kolkata

West Bengal 700072

December 11, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY20 (Audited) and H1FY21 (Provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	270.35	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short Term Bank Facilities	402.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	672.35 (Rs. Six Hundred Seventy-Two Crore and Thirty-Five Lakhs Only)		

2. Refer **Annexure 1** for details of rated facilities.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.
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3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 16, 2020, we will proceed on the basis that you have no any comments to offer.
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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Annexure 1

Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	Axis Bank Ltd.	7.35	Quarterly installment of varying amount starting in FY15 ending in FY21
	Total	7.35	

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	State Bank of India	75.00	Sanctioned and tied up
2.	Bank of Baroda	60.00	
3.	Axis Bank Ltd.	45.00	
4.	ICICI Bank Ltd.	35.00	
5.	HDFC Bank Ltd.	20.00	
6.	Yes Bank Ltd.	5.00	
7.	Oriental Bank of Commerce	5.00	
8.	IDFC First Bank Ltd.	5.00	
	Total	250.00	

1.C. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Oriental Bank of Commerce	13.00	Tenure is not more than 10 years
	Total	13.00	

Total Long Term Facilities : Rs.270.35 crore

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2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	115.00	Sanctioned and tied up as LC
2.	Yes Bank Ltd.	95.00	
3.	State Bank of India	70.00	
4.	Bank of Baroda	40.00	
5.	ICICI Bank Ltd.	35.00	
6.	IDFC First Bank Ltd.	24.00	
7.	IDFC First Bank Ltd.	12.00	Sanctioned and tied up as BG
8.	Oriental Bank of Commerce	11.00	Sanctioned and tied up as LC
	Total	402.00	

Total Short Term Facilities : Rs.402.00 crore

Total Facilities (1.A+1.B+1.C+2.A) : Rs.672.35 crore

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Press Release
Shyam Sel & Power Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	270.35	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short Term Bank Facilities	402.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	672.35 (Rs. Six Hundred Seventy-Two Crore and Thirty-Five 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 facilities/instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has upgraded the rating for long term facilities of Shyam Sel & Power Limited (SSPL) 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 SSPL 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 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.

Rating Sensitivities

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

- Sustainable growth in scale of operations with improvement in EBITDA margins more than 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:

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- 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.150 crore on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong track record of operation

The Shyam Metalics Group (Shyam Sel and Power Limited and its holding company Shyam Metalics & Energy Limited) is 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 SSPL is 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 company has sufficient captive power capacity to meet the power requirements of the plant which enable cost efficiencies across the value chain.

Further, revenue stream of the company continues to be diversified with top 10 customers contributing nearly 29% of the total revenue in FY20 with no single customer contributing more than 6% 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 company (in Jamuria, West Bengal) is 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 company 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 company'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 contributing ~15-20% each to overall revenues.

Satisfactory financial risk profile

Overall gearing ratio of SSPL though moderated, continued to remain comfortable at 0.31x as on March 31, 2020 vis-à-vis 0.24x as on March 31, 2019. Total debt to GCA also moderated, though remained

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satisfactory, to 1.84x as on Mar'20 as against 0.82x 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).

Further, the Shyam Metalics Group (SMEL) has so far prepaid term debt of around Rs.275 crore leading to further strengthening of the capital structure.

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

The total operating income (TOI) of SSPL moderated by ~4% y-o-y in FY20 to Rs.2,521 crore (Rs.2,664 crore during FY19). The moderation was mainly due to lower realisations across the entire product segment incidental to subdued demand from the end user industries and the slowdown in the economy. Accordingly, PBILDT margin moderated to 14.33% (Rs.361.12 crore) in FY20 vis-à-vis 22.36% (Rs.595.58 crore) during FY19. The operating margin was also impacted due to increase in the cost of raw materials and other input costs which wasn't able to pass on to customers. Accordingly, GCA declined to Rs.298.16 crore in FY20 from Rs.447.96 crore in FY19 however continued to remain comfortable vis-à-vis debt repayment obligation of Rs.59.40 crore in FY20.

The Shyam Metalics Group on a consolidated basis reported TOI of Rs.4,393 crore in FY20 (Rs.4,667 crore in FY19) and consolidated PAT and GCA of Rs.340 crore and Rs.535 crore in FY20 (Rs.636 crore and Rs.791 crore in FY19).

Despite the imposition of lockdown to curb the outbreak of Covid-19 pandemic, SSPL recorded sales of ~Rs.1099 crore during H1FY21. Further, the group reported sales of nearly ~Rs.2,154 crore till H1FY21.

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

SSPL is net foreign exchange exporters. 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. The company reported forex loss of Rs.0.67 crore in FY20 vis-à-vis forex gain of Rs.0.60 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

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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 SSPL remained strong with cash accruals of Rs.298 crore during FY20 vis-à-vis debt repayment obligation of Rs.59.40 crore during the same period and fund based working capital utilization at around 42% for the past 12 months ended October 2020 indicating availability of satisfactory buffer in the form of unutilized working capital lines.

The liquidity is further supported by free cash & liquid investment of ~Rs.181 crore approx. as on October 31, 2020 (Rs.101.39 crore as on March 31, 2020). The Group has a liquidity of around Rs.270 crore in the form of free cash and liquid investments as on March 31, 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 Shyam Metalics group plans to be long term debt free over 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.

Analytical approach: Standalone Approach factoring in parent notch up

For arriving at the ratings of Shyam Sel & Power Limited (SSPL), CARE has considered parent notch-up approach to factor in the support from its holding company, Shyam Metalics & Energy Limited (SMEL). Both SMEL and SSPL, are in the same line of business and under a common management, and have significant operational and financial linkages as well as SSPL is the wholly owned subsidiary of SMEL.

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 – Consolidation and Factoring Linkages in Rating](#)

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

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manufacturing of ferro alloys, coal washery, pellet, sponge, billet, TMT bars, steel pipes and captive power plant.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2663.79	2520.68
PBILDT	595.58	361.12
PAT	352.93	237.55
Overall gearing (times)	0.24	0.31
Interest coverage (times)	22.62	12.57

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	-	-	-	402.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	7.35	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 (13-Oct-20)	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)	1)CARE A+; Stable (05-Mar-18)

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2.	Non-fund-based - ST-BG/LC	ST	402.00	CARE A1+	1)CARE A1+ (13-Oct-20)	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	7.35	CARE AA-; Stable	1)CARE A+; Stable (13-Oct-20)	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-Bank Guarantees	LT	13.00	CARE AA-; Stable	1)CARE A+; Stable (13-Oct-20)	1)CARE A+; Stable (10-Oct-19)	-	-
5.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (13-Oct-20)	1)CARE A1+ (06-Mar-20)	-	-

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.	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 - ST-BG/LC	Simple

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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