CRISIL Ratings

Rating Rationale

July 07, 2023 | Mumbai

Shyam Metalics and Energy Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.2000.1 Crore**
Long Term Rating	**CRISIL AA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.50 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper programme of Shyam Metalics and Energy Limited (SMEL; part of the Shyam Metalics group).

The ratings continue to reflect the established market position of the group in the steel sector, diversified product and customer profiles, healthy operating efficiency supported by integrated operations and strategic locations of manufacturing units, and the longstanding experience of promoters in the steel sector. The ratings also factor in the comfortable financial risk profile backed by healthy debt protection metrics.

Consolidated revenue grew by 20.4% in fiscal 2023, backed by rise in average realisation (blended realisation grew ~17%) and modest volume growth (~3%). Consolidated operating margin, however, declined to 11.8% from 24.5% in fiscal 2022 (21.8% in fiscal 2021) owing to steep rise in energy costs and iron ore prices, which more than offset the rise in realisations; also, fiscal 2022 was a historical high for the steel industry. While consolidated Ebitda (earnings before interest, taxes, depreciation, and amortisation) per tonne (on blended volumes) fell to Rs 4,462 from Rs 8,264 in fiscal 2022, this was broadly in line with the long-term average of Rs 4,500-4,700 per tonne for the company. Rise in the share of finished steel in sales mix to ~48% from ~38% in fiscal 2022 also supported operating profitability.

The group incurred capital expenditure (capex) of ~Rs 1,580 crore and acquired Ramsarup Industries Ltd (Ramsarup), which led to an outgo of ~Rs 380 crore. Moderated cash accrual and continued capex resulted in debt rising to ~Rs 1,152 crore as on March 31, 2023, from Rs 590 crore as on March 31, 2022.

That said, operating profitability remained robust with consolidated Ebitda of Rs 1,486 crore in fiscal 2023 (Rs 2,570 crore in fiscal 2022 and Rs 1,379 crore in fiscal 2021) supporting healthy credit risk profile, while balance sheet remained net cash positive; in line with expectations. The ratings also factor in the adequate liquidity, backed by cash and equivalent of ~Rs 1,500 crore as on March 31, 2023.

The group has announced the acquisition of Mittal Corp, a manufacturer of stainless steel long products with a total capacity of 150,000 tonne per annum. Total outgo in fiscal 2024 towards completion of the acquisition is ~Rs 351 crore. It is awaiting final order from the National Company Law Tribunal (NCLT) for the legal process to complete.

Healthy demand, increased contribution from the recently enhanced capacities, better product diversity, improving sales realisations driven by higher share of value-added products and moderating input prices (especially energy prices) are expected to improve operating profitability and will remain key monitorables over the medium term.

The group has sizeable capex plans of ~Rs 2,500 crore over the next couple of fiscals, which include capex to operationalise the acquired plant of Ramsarup, outgo towards acquisition of Mittal Corp and other organic capex. The capex is likely to be supported by internal accrual, expected cash accrual of Rs 1,500-Rs 1,800 crore per annum, and healthy liquidity. CRISIL Ratings understands the company is expected to maintain strong debt metrics with sustenance of net cash positive position over the medium term as well. Any material debt-funded capex or acquisition impacting debt protection metrics will remain a key monitorable.

These strengths are partially offset by vulnerability to fluctuations in raw material and finished goods prices, exposure to inherent cyclicality as well as competitive and capital-intensive nature of the steel industry.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of SMEL and its subsidiaries because these companies, together referred to as the Shyam Metalics group, are in the same business and under a common management and have significant operational and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position in eastern India and extensive experience of the promoters**
  The Shyam Metalics group is one of the largest players in the steel and steel intermediates industry in eastern India. The promoters have been associated with the steel industry for over three decades and have established forward as well as backward integrated operations. Combined capacities increased to 12.7 million tonnes per annum (MTPA) in fiscal 2022 from 2.3 MTPA in fiscal 2017. Diversified product mix includes pellets (~8% of sales in fiscal 2023), sponge iron (~15%), billets (~8%), TMT (thermo mechanically treated) bars and structural products (~48%), ferro alloys (14%) and aluminum foils (~4%).

  Revenue growth is expected to continue over the medium term given the recent capacity expansion, planned capacity addition (taking total capacity to 14.4 MTPA), and operationalisation of acquired capacities over the next couple of fiscals. Furthermore, contribution from TMT bars, structural products and ferro alloys is expected to rise as the group is focusing on increasing the share of finished/value-added products in the sales mix. Clientele is also diversified, with no single customer accounting for more than 5% of revenue.

- **Healthy operating efficiency driven by integrated operations and prudent working capital management**
  Operations are integrated with presence across the steel value chain (from pellets to long products). This provides the group flexibility to sell intermediate products and also use them for captive consumption. Moreover, the facilities are supported by captive power and waste heat recovery plants, coal washery and railway sidings, which result in cost efficiency. Profitability will be supported by low power cost of Rs 2.5-3 per unit (captive power to contribute ~80% of its requirement over the medium term), improving product mix and healthy proportion of high-margin ferro alloys, and moderated input prices. CRISIL Ratings expects operating margin to remain healthy over the medium term with Ebitda per tonne of Rs 5,500-6,000.

  Working capital management has been prudent. The group sells mainly on advance/letter of credit basis, leading to low receivables of 15-30 days. Inventory, at 70-90 days, mainly comprises raw materials. While the group does not have captive iron ore mines, its proximity to raw material sources gives it access to iron ore at competitive rates because of lower logistics cost, thereby supporting profitability.

- **Healthy financial risk profile**
  Despite lower cash flows, balance sheet strength continues to sustain, with consolidated networth of Rs 7,547 crore against consolidated debt of Rs 1,152 crore, as on March 31, 2023, along with sizeable cash surplus of ~Rs 1,500 crore. Adjusted gearing stood at 0.15 time against 0.1 time as on March 31, 2022. Debt/Ebitda rose to 0.8 time in fiscal 2023 against 0.23 time previous fiscal.

  Financial risk profile is expected to remain stable despite large capex over the medium term. Capex of ~Rs 2,500 crore over the next couple of fiscals is likely to be funded largely through annual cash accrual of Rs 1,500-1,800 crore. This should continue to support healthy debt protection metrics and strong capital structure. Also, CRISIL Ratings notes the management articulation that the gearing will remain below 0.5 time even in case of any sizeable capex. Larger-than-expected debt-funded capex or acquisition, resulting in higher debt levels and weakening of debt metrics and capital structure, will remain a key rating sensitivity factor.

  As per listing norms, the company needs to reduce promoter stake to 75% by June 2024. CRISIL Ratings understands that the management intends to do this through a mix of fresh capital raise and promoter equity dilution. Any incremental cash inflows from the proposed capital raise will be used to support capex plans and incremental working capital requirement.

Weaknesses:

- **Vulnerability to inherent cyclicality in steel sector and fluctuations in raw material and finished goods prices**
  The group's performance remains vulnerable to cyclicality in the steel sector given close linkage between demand for steel products and the domestic and global economies. End-user segments such as real estate, civil construction and engineering are also cyclical.

  Furthermore, operating margins are vulnerable to volatility in input prices (iron ore and coal) as well as realisation from finished goods. For instance, margin fell to 11.8% in fiscal 2023 from 24.5% in fiscal 2022 owing to rise in input prices. Price and supply of the main raw material, iron ore, directly impacts the realisations of finished goods. The steel sector also remains exposed to steel prices globally, as was seen in fiscal 2016 when steel prices declined significantly and had impacted realisations and operating profitability (the group’s operating margin fell to 9.4%). To maintain market share, industry participants have to routinely carry out capacity expansion and debottlenecking activities.

  Any significant reduction in demand and prices adversely impacting operating margin and cash accruals of the group will remain a key monitorable.

Liquidity: Strong

Liquidity is supported by consolidated cash and equivalent of ~Rs 1,500 crore as on March 31, 2023. Annual cash accrual of Rs 1,500-1,800 crore should suffice to meet capex and debt obligation. Moderate utilisation of fund-based working capital limit (about 56% as on April 30, 2023) also supports liquidity. The group has limited repayment obligation over the next few fiscals.

Outlook: Stable

The Shyam Metalics group will continue to benefit from its established market position in key long steel products, diversified revenue streams, robust demand and integrated nature of operations, thereby ensuring healthy cash generation. Financial risk profile is likely to remain healthy, driven by prudently funded capex plans and strong liquidity.

Rating Sensitivity factors

Upward factors
- Healthy operating performance supported by volume growth with high capacity utilisation, and increased level of integration resulting in consolidated Ebitda per tonne rising to beyond Rs 7,000-7,500 on a steady basis
- Phased capital spending and prudently funded, leading to sustenance of comfortable debt metrics with consolidated debt to Ebitda remaining below 0.5 time on sustained basis along with healthy liquidity levels

Downward factors
- Deterioration in operating performance due to weakened demand, and intense competition, leading to significant decline in operating profitability, with consolidated Ebitda per tonne below Rs 4,000 on a steady basis
- Large, debt-funded capex/acquisition leading to deterioration in debt metrics; with consolidated debt to Ebitda increasing above 1.0-1.5 times on a sustained basis

About the Group

The Shyam Metalics group has diversified businesses comprising production of iron and steel, ferro alloys, and power. SMEL was established in 2002 as Shyam DRI Power Ltd when the group expanded its operations to Odisha; the company got its present name in January 2010. It manufactures sponge iron, billets, TMT steel bars, and ferro alloys and has captive power plants supporting ~80% of its power requirements.

Shyam Sel and Power Ltd, a wholly owned subsidiary of SMEL, was incorporated in 1991 and started commercial production in 1996 with steel-melting shops. Over the years, it added rolling mills, ferro alloy furnaces, sponge iron kilns, billet and ingot capacities, and a captive power plant and capital railway sidings to ensure operational and business integration. Manufacturing units are in Raniganj, Pakuria and Jamuria in West Bengal.

Key Financial Indicators - SMEL (consolidated) – CRISIL Ratings-adjusted numbers

As on/for the period ended March 31	Units	2023*	2022
Revenue	Rs crore	12,610	10,311
PAT	Rs crore	848	1,666
PAT margin	%	6.7	16.2
Adjusted debt/adjusted networth	Times	0.15	0.09
Adjusted interest cover	Times	17.2	193.3
Debt / Ebitda	Times	0.78	0.22

based on abridged financials

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs crore)	Complexity level	Rating outstanding with outlook
NA	Cash Credit	NA	NA	NA	600	NA	CRISIL AA/Stable
NA	Bank Guarantee	NA	NA	NA	200	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	1000	NA	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	50	Simple	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	0.1	NA	CRISIL AA/Stable
NA	Proposed Letter of Credit*	NA	NA	NA	75	NA	CRISIL A1+
NA	Capex Letter Of Credit	NA	NA	NA	125	NA	CRISIL AA/Stable

**Capex LC*

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Shyam Sel and Power Ltd (SSPL)	Full consolidation	Subsidiary with business and financial linkages
Shyam Metalics Flat Products Pvt Ltd	Full consolidation	Step-down subsidiary with business and financial linkages
Ramsarup Industries Ltd	Full consolidation	
Shri Venkateshwara Electrocast Pvt Ltd	Full consolidation	
Shyam Energy Ltd	Full consolidation	
Hrashva Storage and Warehousing Pvt Ltd	Full consolidation	

Taurus Estates Pvt Ltd	Full consolidation
Whispering Developer Pvt Ltd	Full consolidation
Meadow Housing Pvt Ltd	Full consolidation
Platinum Minmet Pvt Ltd	Full consolidation
Shree Sikhar Iron & Steel Ltd	Full consolidation
Nirjhar Commodities Pvt Ltd	Full consolidation
S.S. Natural Resources Pvt Ltd	Full consolidation
Shyam Metalics International DMCC	Full consolidation

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	600.1	CRISIL AA/Stable		--	20-12-22	CRISIL AA/Stable	24-08-21	CRISIL AA-/Positive	10-08-20	CRISIL AA-/Stable	Withdrawn
			--		--	07-07-22	CRISIL AA/Stable	12-08-21	CRISIL AA-/Positive		--	--
Non-Fund Based Facilities	ST/LT	1400.0	CRISIL A1+ / CRISIL AA/Stable		--	20-12-22	CRISIL A1+ / CRISIL AA/Stable	24-08-21	CRISIL A1+	10-08-20	CRISIL A1+	Withdrawn
			--		--	07-07-22	CRISIL A1+ / CRISIL AA/Stable	12-08-21	CRISIL A1+		--	--
Commercial Paper	ST	50.0	CRISIL A1+		--	20-12-22	CRISIL A1+	24-08-21	CRISIL A1+	10-08-20	CRISIL A1+	--
			--		--	07-07-22	CRISIL A1+	12-08-21	CRISIL A1+		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	**11**	**State Bank of India**	**CRISIL A1+**
Bank Guarantee	**60**	**Bank of Baroda**	**CRISIL A1+**
Bank Guarantee	**10**	**Punjab National Bank**	**CRISIL A1+**
Bank Guarantee	**44**	**YES Bank Limited**	**CRISIL A1+**
Bank Guarantee	**75**	**IDFC FIRST Bank Limited**	**CRISIL A1+**
Capex Letter Of Credit	**75**	**YES Bank Limited**	**CRISIL AA/Stable**
Capex Letter Of Credit	**50**	**ICICI Bank Limited**	**CRISIL AA/Stable**
Cash Credit	**85**	**Axis Bank Limited**	**CRISIL AA/Stable**
Cash Credit	**105**	**HDFC Bank Limited**	**CRISIL AA/Stable**
Cash Credit	**50**	**Punjab National Bank**	**CRISIL AA/Stable**
Cash Credit	**100**	**ICICI Bank Limited**	**CRISIL AA/Stable**
Cash Credit	**5**	**IDFC FIRST Bank Limited**	**CRISIL AA/Stable**
Cash Credit	**25**	**Kotak Mahindra Bank Limited**	**CRISIL AA/Stable**
Cash Credit	**175**	**State Bank of India**	**CRISIL AA/Stable**
Cash Credit	**50**	**Bank of Baroda**	**CRISIL AA/Stable**
Cash Credit	**5**	**YES Bank Limited**	**CRISIL AA/Stable**
Letter of Credit	**100**	**State Bank of India**	**CRISIL A1+**
Letter of Credit	**100**	**Bank of Baroda**	**CRISIL A1+**
Letter of Credit	**134**	**Axis Bank Limited**	**CRISIL A1+**
Letter of Credit	**176**	**YES Bank Limited**	**CRISIL A1+**
Letter of Credit	**175**	**ICICI Bank Limited**	**CRISIL A1+**
Letter of Credit	**70**	**IDFC FIRST Bank Limited**	**CRISIL A1+**
Letter of Credit	**20**	**UCO Bank**	**CRISIL A1+**
Letter of Credit	**90**	**Punjab National Bank**	**CRISIL A1+**
Letter of Credit	**85**	**HDFC Bank Limited**	**CRISIL A1+**
Letter of Credit	**50**	**Kotak Mahindra Bank Limited**	**CRISIL A1+**

Proposed Letter of Credit*	**75**	**-**	**CRISIL AA/Stable**
Proposed Long Term Bank Loan Facility	**0.1**	**-**	**CRISIL AA/Stable**

**Capex LC*

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]
[Rating criteria for manufaturing and service sector companies]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
[Rating Criteria for Steel Industry]
[CRISILs Criteria for rating short term debt]
[CRISILs Criteria for Consolidation]

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