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SMEL/SE/2022-23/23

July 08, 2022

The Manager, Listing Department **National Stock Exchange of India Ltd.** Exchange Plaza Plot No. C/1, G Block Bandra – Kurla Complex Bandra (E), Mumbai – 400 051 **NSE Symbol: SHYAMMETL**	**The Secretary, Listing Department** **BSE Limited** Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001. **Scrip Code No. 543299**

Sub: Intimation under Regulation 30(6) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("Listing Regulations 2015") – Revision in Credit Rating

Dear Sir,

In compliance with Regulation 30(6) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("Listing Regulations 2015"), we do hereby inform you that:

CRISIL Ratings vide their release dated July 07, 2022 has upgraded the Company's bank facilities to CRISIL AA/Stable from AA-/Positive. The details are tabulated as under:

Credit Rating Agency	Existing Rating	Revised Rating	Rating Acton
CRISIL	Long Term: CRISIL AA-/Positive	Long Term: CRISIL AA/Stable	Upgraded from CRISIL AA-/ Positive to CRISIL AA/ Stable
	Short Term: CRISIL A1+	Short Term: CRISIL A1+	Reaffirmed
	Commercial paper: CRISIL A1+	Commercial Paper: CRISIL A1+	Reaffirmed

We are enclosing herewith rationale given by CRISIL for revision in the credit rating, wherein Long-term rating upgraded to 'CRISIL AA' and outlook revised to 'Stable'. Further, Short term and Commercial Paper rating reaffirmed. A copy of the report covering the rationale for the rating is also available on CRISIL website at the given below link:

https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/ShyamMetalicsandEnergyLimited_July%2007,%202022_RR_297893.html

This is for your information and records.

For Shyam Metalics and Energy Limited

Birendra Kumar Jain
Company Secretary

SHYAM METALICS AND ENERGY LIMITED ★ Kolkata

SHYAM METALICS AND ENERGY LIMITED
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Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

July 07, 2022 | Mumbai

Shyam Metalics and Energy Limited

Long-term rating upgraded to 'CRISIL AA/Stable'; short-term rating reaffirmed; rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	**Rs.2000.1 Crore (Enhanced from Rs.969.46 Crore)**
Long Term Rating	**CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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

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

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of Shyam Metalics and Energy Limited (SMEL; part of the Shyam Metalics group) to **'CRISIL AA/Stable'** from 'CRISIL AA-/Positive'; and reaffirmed the rating on the short-term facilities and commercial paper programme at 'CRISIL A1+'.

The rating upgrade reflects the stronger-than-expected operating performance in fiscal 2022, as reflected in about 65% on-year growth in revenue to Rs 10,311 crore because of a 40% volume growth following robust demand. This, along with healthy operating margin of around 25%, resulted in net cash accruals of around Rs 1813 crores in fiscal 2022 that supported the ongoing capital expenditure (capex) and debt reduction in the previous fiscal. Furthermore, with modular capex, healthy capacity utilisation and integrated operations, business risk profile is expected to remain strong over the medium term.

Buoyant demand, increased contribution from the recently enhanced capacities, better product diversity, favourable sales realisations driven by higher share of value-added products and high steel prices boosted operating performance in fiscal 2022. While steel prices are likely to moderate in fiscal 2023, they will remain healthy. Also, expected moderation in raw material prices (especially iron ore) and diversified product profile will provide cushion against reduced steel prices and support operating profitability.

Additionally, the financial risk profile has been strengthened with reduction in overall debt over the fiscal 2021. Improved profitability and low debt level (Rs 575 crore as of March 2022) led to robust debt protection metrics, with debt to earnings before interest, tax, depreciation, and amortisation (Ebitda) ratio improving to 0.22 time in fiscal 2022 from 0.58 time in fiscal 2021. The group is expected to sustain its healthy financial risk profile despite sizeable capex plans of ~Rs 2,500 - 3,000 crore over the next 2-3 fiscals. The capex is mainly to be supported by internal accruals, supported by expected cash accruals of around Rs 1300 – Rs 1500 crore per annum, and strong liquidity of over Rs 1000 crore in the form of cash & cash equivalents as on June 30, 2022. Any material debt-funded capex or acquisition impacting debt protection metrics, will remain a key monitorable.

The ratings reflect the established market position of the Shyam Metalics 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 further factors in the group's comfortable financial risk profile backed by healthy debt protection metrics. These strengths are partially offset by vulnerability to fluctuations in prices of raw material and finished goods, exposure to inherent cyclicality as well as competitive and capital-intensive nature of the steel industry.

Analytical Approach

For arriving at its ratings, 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 promoters**
  Shyam Metalics group is one of the largest players in the steel and steel intermediates industry in Eastern India. Promoters are associated with the steel industry for over three decades and have established forward as well as

backward integrated operations. The group's combined capacities have increased to 7.8 MTPA in fiscal 2022 from 2.3 MTPA in fiscal 2017. Group's diversified product mix includes pellets, sponge iron, billets, TMT bars and structural products and ferro alloys contributing 10-30% each to the overall revenue.

Backed by the established market position and diversified product profile revenue reached to about Rs 10,311 crore (on consolidated basis) in fiscal 2022 from Rs 2,225 crore in fiscal 2017, at a CAGR of 73%. While recent export duty imposition on steel products may result in lower exports, it should not impact the company as export constitutes only ~15-20% of revenues of the company during last 5 years.

Revenue growth is expected to continue over the medium term, given the recent capacity expansion by the group and planned capacity addition of 14.4 MTPA by fiscal 2025. Further, over the medium term, contribution from TMT bars, structural products and ferro alloys is expected to increase, as group is focusing on increasing the share of finished/value-added products in the sales mix. Clientele is also diversified, with no single customer contributing more than 5% to revenue.

- **Healthy operating efficiency driven by integrated operations and prudent working capital management**
  The group has integrated operations with presence in steel value chain right from pellets to long products. It provides the group with a flexibility to sell intermediate products and also, use them for captive consumption. The facilities are also supported by captive power plants, waste heat recovery plants, coal washery, and railway sidings, which result in cost efficiencies besides presence across value chain. The profitability is supported by low power cost of Rs 2-2.5/unit, improving product mix and healthy proportion of high-margin ferro alloys.

  Working capital management has been prudent. The group sells mainly on advance/letter of credit basis and hence the debtors are low at 15-30 days. Inventory is maintained for 70-80 days with majority being the raw materials. In fiscal 2022, the group witnessed increased inventory levels mainly due to increased prices of raw materials, which led to inventory increasing to 90 days, and benefitted the operating margin in fiscal 2022 to a certain extent. While the group does not have captive iron ore mines, its proximity to raw material sources results in access to iron ore at competitive rates because of lower logistics cost, thereby supporting healthy operating profitability. Thereby, CRISIL Ratings expects operating margin to remain healthy around 18-20% in fiscal 2023, despite expected moderation in steel prices.

- **Healthy and improving financial risk profile**
  With healthy cash generation, overall net-worth of the group was at over Rs 5,800 crore as on March 31, 2022. Comparatively, debt remains modest at Rs 575 crore as on March, 31 2022, which along with sizeable cash surplus, has increased financial flexibility, besides strengthening the debt protection metrics. The ratio of debt to Ebitda and adjusted gearing improved to 0.22 time and 0.09 time, respectively, in fiscal 2022 against 0.58 time and 0.22 time in fiscal 2021.

  Operating profit grew by ~80% in fiscal 2022 marked by capacity addition in value-added products such as thermomechanical treatment (TMT) bars, structural products and increase in realizations across the value chain over the previous fiscal has supported healthy double digit revenue growth. Operating profitability was around 24% in fiscal 2022, with better integration, increased access to cheaper captive power, proximity to raw materials, captive railway sidings and focus on higher value-added products, ensuring strong cash generation.

  Financial risk profile is expected to remain healthy, despite high capex over the medium term. Capex of ~Rs 2,500 - 3,000 crore is expected over the next 2-3 years, expected to be funded largely from annual cash accruals which is expected to be around Rs 1300-1500 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 the event of any sizeable capex. Higher-than-expected debt-funded capex or acquisition resulting in deterioration in debt metrics and capital structure will remain a key rating sensitivity factor.

Weakness:

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

  Further, operating margins are vulnerable to volatility in the input prices (iron ore and coal) as well as realisation from finished goods. The prices and supply of the main raw material, iron ore, directly impacts the realisations of finished goods. Further, the steel sector remains exposed to steel prices globally, as was witnessed in fiscal 2016 wherein steel prices declined significantly and had impacted realisations and operating profitability (the group's operating margin declined to 9.4%). To maintain/improve market share, the industry participants have been observed to routinely carry out capacity expansion and debottlenecking activities.

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

Liquidity: Strong
Liquidity is supported by healthy net cash accrual (over Rs 1,800 crore for fiscal 2022), cash & cash equivalents of over Rs 1000 crore as on June 30, 2022. CRISIL ratings believes annual cash accrual to remain around Rs 1300-1500 crore which should suffice for capex requirement and debt repayment. Further, moderate utilisation of fund based working capital bank limits (about 27% as of March 2022) also supports liquidity. Group has limited long-term debt and hence repayment obligation is low at Rs 19 crore in fiscal 2023.

Outlook: Stable

The Shyam Metalics group will continue to benefit from established market position in key long steel products, diversified revenue streams, robust demand and its integrated nature of operations, ensuring healthy cash generation. The 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 with continued volume growth, supported by high-capacity utilisation, and increased level of integration supporting operating margins remaining above 22-25% on sustained basis.
- Sustenance of healthy financial risk profile with no material debt funded capex or acquisition, along with healthy operating cash accruals supporting comfortable debt metrics, with ratio of debt to Ebidta remaining below 0.5 time on sustained basis along with healthy liquidity levels

Downward factors

- Deterioration of operating performance due to weakened demand, and intense competition, leading to a decline in operating margins to below 14-15% on sustained basis, resulting in material reduction in operating cash accruals.
- Higher than expected debt-funded capex/acquisition deteriorating debt metrics and weakening the financial risk profile
- Sharp reduction in liquid surpluses, due to additional capex or share buy-back, or material dividend payout.

About the Company

The Shyam Metalics group has diversified businesses, comprising production of iron and steel, ferroalloys, 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 ferroalloys, and has a power plant.

SSPL was incorporated in 1991 and started commercial production in 1996 with steel-melting shops. Over the years, it added rolling mills, ferroalloy furnaces, sponge iron kilns, billet and ingot capacities, and a captive power plant and capital railway sidings to ensure operational and business integration. Its manufacturing units are at Raniganj, Pakuria and Jamuria in West Bengal.

Key Financial Indicators* (consolidated)

As on/for the period ended March 31	Units	2022	2021
Revenue	Rs crore	10,311	6,297
PAT	Rs crore	1,666	843
PAT margin	%	16.2	13.4
Adjusted debt/adjusted networth	Times	0.09	0.22
Debt / Ebitda	Times	0.22	0.58

**CRISIL Ratings adjusted numbers*

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. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. 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.Cr)	Complexity level	Rating outstanding with outlook
NA	Cash Credit	NA	NA	NA	450	NA	CRISIL AA/Stable
NA	Bank Guarantee	NA	NA	NA	100	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	600	NA	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	50.00	Simple	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	150.1	NA	CRISIL AA/Stable
NA	Proposed Letter of Credit*	NA	NA	NA	200	NA	CRISIL AA/Stable
NA	Proposed Letter of Credit	NA	NA	NA	400	NA	CRISIL A1+
NA	Proposed Bank Guarantee	NA	NA	NA	100	NA	CRISIL A1+

**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
Shri Venkateshwara Electrocast Pvt Ltd (SVEPL)	Full consolidation	Subsidiary with business and financial linkages

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	600.1	CRISIL AA/Stable		--	24-08-21	CRISIL AA-/Positive	10-08-20	CRISIL AA-/Stable	31-10-19	Withdrawn	CRISIL A/Positive
			--		--	12-08-21	CRISIL AA-/Positive		--		--	--
Non-Fund Based Facilities	ST/LT	1400.0	CRISIL A1+ / CRISIL AA/Stable		--	24-08-21	CRISIL A1+	10-08-20	CRISIL A1+	31-10-19	Withdrawn	CRISIL A/Positive / CRISIL A1
			--		--	12-08-21	CRISIL A1+		--		--	--
Commercial Paper	ST	50.0	CRISIL A1+		--	24-08-21	CRISIL A1+	10-08-20	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	48.64	IDFC FIRST Bank Limited	CRISIL A1+
Bank Guarantee	11	State Bank of India	CRISIL A1+
Bank Guarantee	5	Bank of Baroda	CRISIL A1+
Bank Guarantee	10.36	IDFC FIRST Bank Limited	CRISIL A1+
Bank Guarantee	25	UCO Bank	CRISIL A1+
Cash Credit	10	Kotak Mahindra Bank Limited	CRISIL AA/Stable
Cash Credit	69	State Bank of India	CRISIL AA/Stable
Cash Credit	25	Bank of Baroda	CRISIL AA/Stable
Cash Credit	2	YES Bank Limited	CRISIL AA/Stable
Cash Credit	87	ICICI Bank Limited	CRISIL AA/Stable
Cash Credit	2	IDFC FIRST Bank Limited	CRISIL AA/Stable
Cash Credit	35	UCO Bank	CRISIL AA/Stable
Cash Credit	82	Axis Bank Limited	CRISIL AA/Stable
Cash Credit	138	HDFC Bank Limited	CRISIL AA/Stable
Letter of Credit	12	HDFC Bank Limited	CRISIL A1+
Letter of Credit	40	Kotak Mahindra Bank Limited	CRISIL A1+
Letter of Credit	100	State Bank of India	CRISIL A1+
Letter of Credit	35	Bank of Baroda	CRISIL A1+
Letter of Credit	90	Axis Bank Limited	CRISIL A1+
Letter of Credit	118	YES Bank Limited	CRISIL A1+
Letter of Credit	78	ICICI Bank Limited	CRISIL A1+
Letter of Credit	59	IDFC FIRST Bank Limited	CRISIL A1+
Letter of Credit	68	UCO Bank	CRISIL A1+
Proposed Bank Guarantee	100	Not Applicable	CRISIL A1+
Proposed Letter of Credit	400	Not Applicable	CRISIL A1+
Proposed Letter of Credit*	200	Not Applicable	CRISIL AA/Stable
Proposed Long Term Bank Loan Facility	150.1	Not Applicable	CRISIL AA/Stable

This Annexure has been updated on 07-Jul-22 in line with the lender-wise facility details as on 07-Jul-22 received from the rated entity.
**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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Note for Media:

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