



## Press Release

### Shah Sponge & Power Limited (SSPL)

February 05, 2018

## Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 48.00 Cr.
<b>Long Term Rating</b>	SMERA BBB / Outlook: Stable
<b>Short Term Rating</b>	SMERA A3+

\* Refer Annexure for details

## Rating Rationale

SMERA has assigned long-term rating of **'SMERA BBB' (read as SMERA triple B)** and short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs. 48.00 crore bank facilities of Shah Sponge & Power Limited (SSPL). The outlook is **'Stable'**.

Incorporated in 2005, Shah Sponge & Power Limited is a Jharkhand based company engaged in the manufacturing of sponge iron & billets with an installed capacity of 60,000 tons per annum (tpa) and 88,000 tpa respectively. Currently the company has sponge iron plant of 2 kilns of 60,000 MT p.a which is being increased recently to 90,000 MT p.a (3rd kiln). Further, the company is in the process of adding its 4th kiln of 30,000 MT p.a likely to get commissioned by June/July 2018. The company has an in-house power plant of 15 MW used for captive consumption.

The company is part of the Shah Group which is engaged in iron ore mining in Karampada Forest Area in Jharkhand with mining area of 233.99 hectares with installed capacity of 8,00,000 MT per annum. The mining operations are being managed by Shah Brothers (SB) - a partnership firm established in 1972. The group was promoted by Shah family of Jharkhand. Currently the group is managed by Mr. Raj Kumar Shah and Mr. Shyam Sundar Shah.

**Analytical Approach:** SMERA has taken a consolidated view of SSPL and its group company Shah Brothers (SB) commonly referred to as Shah Group while assigning the ratings. This is on account of the operational and financial linkages, common owners and corporate guarantee.

## Key Rating Drivers

### Strengths

#### Experienced management and semi integrated player

The Shah group was established more than four decades ago with the commencement of mining operations in 1972 through Shah Brothers (SB). Over the years, the partners were engaged in mining operations. The management comprising of Mr. Raj Kumar Shah and Mr. Shyam Sundar Shah has nearly three decades of experience in mining and over one decade in steel manufacturing business.

In 2005, the partners promoted Shah Sponge & Power Limited (SSPL) by commissioning a sponge iron plant of 60 TPD. Over the last decade the SSPL has further added new facilities in the form of sponge iron plant, in-house power generation plant of 15 MW, billet capacity of 88,000 MT per annum. In addition SSPL has the advantage of easy procurement of iron ore from its group company- Shah Brothers.

### **Robust financial risk profile**

The robust financial risk profile of the group is marked by its healthy net worth, comfortable gearing and debt protection metrics. The net worth of the group stood at healthy levels of Rs 96.98 crore in FY2017 as against Rs 67.50 crs in FY 2016. The improvement is on account of conversion of Rs 14.04 crs of long term unsecured loans to equity in FY 2017. Debt equity stands improved at 0.90 times in 2017 on as compare to 1.28 times in FY 2016 primarily on account of increase in the networth levels. Total debt of Rs 87.65 crore in FY 2017 consist of long term debt of Rs 9.26 crore of long term loan, Rs 37.15 crore of short term working capital facilities and Rs 40.24 crs of unsecured loans from partners. The interest coverage ratio and DSCR stood comfortable at 4.13 times and 2.88 times in FY 2017 as compare to 2.61 times and 2.96 times respectively in FY 2016. The NCA /TD stood at 0.25 times in FY 2017 as compared to 0.43 times in FY 2016.

### **Healthy revenue and profitability**

The revenues of the group stood at Rs 300.76 crs in FY 2017 as against Rs 282.55 crs in FY 2016. During the current year the group registered a top-line of Rs 273.67 crs till Dec'17 (provisional). The operating profitability margins of the group improved in FY 17 to 12.46 per cent from 9.41 per cent in FY 16. Further during the current year, the group operating margins improved to 13.48 per cent (provisional) for the nine months ended Dec'17. The rise in top-line and operating profitability is primarily on account of improvement in sponge iron, billet and iron ore realization.

### **Moderate working capital cycle**

The working capital cycle of the group is moderate with GCA days of 137 in FY 2017 as against 143 days in FY 2016. The group has a well-managed receivable cycle with receivable of 23 days to 50 days during the period under review (FY 15 to FY 17). The inventory days also stood comfortable between 25 days to 35 days during the last 3 years. The modest working capital cycle has translated into 50 per cent utilization of its working capital facilities in the past twelve months ended December 2017.

### **Weaknesses**

#### **Exposure to inherent cyclicity in the steel industry**

The profit margins and sales of the group remains exposed to inherent cyclicity in the steel and iron ore mining industry.

#### **Presence in highly competitive and fragmented industry**

The group is operating in competitive and fragmented nature of industry specially in primarily steel producing industry which constituents ~ 60-70 per cent of the group's revenue . There are several players who are engaged in the sponge iron and billets manufacturing business in organized and unorganized sector.

### **Outlook: Stable**

SMERA believes that Shah Group will continue to benefit over the medium term from the promoters long experience in mining and primary steel manufacturing business. The outlook may be revised to 'Positive' if Shah group achieves more than envisaged sales and profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve growth in revenue and financial risk profile further deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	300.76	282.55	338.91
EBITDA	Rs. Cr.	37.49	26.59	54.43
PAT	Rs. Cr.	15.19	29.71	1.33
EBITDA Margin	(%)	12.46	9.41	16.06
PAT Margin	(%)	5.05	10.52	0.39
ROCE	(%)	19.62	14.17	70.09
Total Debt/Tangible Net Worth	Times	0.90	1.28	1.65
PBDIT/Interest	Times	4.13	2.61	5.36
Total Debt/PBDIT	Times	2.32	3.21	1.55
Gross Current Assets (Days)	Days	137	143	124

### Status of non-cooperation with previous CRA (if applicable)

On 17th October'2017, India Ratings and Research (Ind-Ra) has migrated Shah Sponge & Power Limited's (SSPL) Long-Term Issuer Rating to the non-cooperating category.

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BBB/ Stable
Term Loan	Not Applicable	Not Applicable	March'2027	20.00	SMERA BBB/ Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA A3+

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## ABOUT SMERA

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