

## Press Release

### Shah Sponge & Power Limited

June 18, 2019

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 59.00 Cr.
<b>Long Term Rating</b>	ACUITEB BBB-/ Outlook: Stable (Downgraded from ACUITE BBB/Stable)
<b>Short Term Rating</b>	ACUITE A3 (Downgraded from ACUITE A3+)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded long term rating to **ACUITE BBB-** (read as **ACUITE triple B minus**) from **ACUITE BBB** (read as **ACUITE triple B**) and short term rating to **ACUITE A3** (read as **ACUITE A three**) from **ACUITE A3+** (read as **ACUITE A three plus**) to the Rs. 59.00 Cr. bank facilities of Shah Sponge & Power Limited (SSPL). The outlook is 'Stable'.

The downgrade in rating is on account of sudden closure of the mining operations of group company, Shah Brothers by the Govt. of Jharkhand. Further, demand to the tune of Rs 250 crore has been levied on the firm of which around Rs 91 crore has been paid off. The outstanding amount of penalties has resulted in significant rise in the overall liabilities of the group. The restoration of mining operations is currently sub-judice and any negative outcome will impact the overall performance of the group.

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 1,20,000 tons per annum (tpa) and 88,000 tpa respectively. The company has an in-house power plant of 15 MW used for captive consumption. Shah Brothers (SB) is part of the Shah Group which is engaged in iron ore mining in Karampada Forest Area in Jharkhand with mining area of around 234 hectares with installed capacity of 8,00,000 MT per annum. Shah Brothers (SB) is a partnership firm established in 1972. Currently the group is managed by Mr. Raj Kumar Shah and Mr. Shyam Sundar Shah. However, since January'19, the mining operations have been disrupted after the Jharkhand Government's intervention in their mining operations. The promoters have taken up the matter in court.

### Analytical Approach

Acuite 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 given by Shah Brothers to SSPL.

### Key Rating Drivers

#### Strengths

#### Experienced management and long track record of operations

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.

### Healthy financial risk profile

The healthy 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 129.32 crore as on 31st March' 2018 as against Rs 96.98 crs as on 31st March' 2017. Debt equity stands improved at 0.62 times as on 31st March' 2018 as against Rs 0.90 crs as on 31st March' 2017. The total debt of Rs 79.81 crore as on 31st March'18 consists of Rs 17.49 crore of term loan, Rs 22.41 crs of working capital facilities, Rs 34.33 crore of unsecured loans from partners/directors and Rs 5.59 crore of annual obligation. Acuité notices, the unsecured loans being kept in the business since long if treated as equity, the adjusted debt-equity stands at 0.35 times as on 31st March'18. The interest coverage ratio and DSCR stood comfortable at 7.52 times and 5.15 times in FY 2018 as compare to 4.13 times and 2.88 times respectively in FY 2017. The NCA /TD stood at 0.49 times in FY 2018 as compared to 0.25 times in FY 2017.

Going forward, though Acuité expects deterioration in the financial risk profile on account of the significant rise in the debt obligation in Shah Brothers.

### Weaknesses

#### Closure of business in Shah Brothers

The mining operations of Shah Brothers suffered a major jolt with the Jharkhand Government's decision to cease its operations in Jan'19. Further, the State Government has imposed a penalty of Rs 250 crore of which Rs. 91 crore has been paid off. The promoters have decided to follow the legal route to resume operations. Any unfavourable order for SB will result in the decline on the overall performance of the group in terms of topline, profitability and cash accruals. Further, the timely payment of the balance penalty by the state Government will be a key rating sensitivity.

#### 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.

#### Liquidity:

Shah Group has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. Shah Group generated cash accruals of Rs.39.14 in FY 2017-18, while its maturing debt obligations were Rs 5.59 over the same period. Going forward, though Acuité expects stress in the liquidity where the group has to pay Rs 159 crore as demand to the state government. Further, the closure of operations in Shah Brothers is likely to impact the overall liquidity of the group.

#### Outlook: Stable

Acuité believes that Shah will continue to benefit over the medium term from the promoters long experience in business. The outlook may be revised to 'Positive' if Shah Brothers pays the outstanding demand and is able to start its operations without any significant delay and achieves more than envisaged sales and profitability. Conversely, the outlook may be revised to 'Negative' if the operations are continues to remain closed and significant time elapses thereby impacting the overall revenue and profitability of the group.

#### About the Rated Entity - Key Financials-

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	354.43	300.76	282.55
EBITDA	Rs. Cr.	54.05	37.49	27.19
PAT	Rs. Cr.	31.71	15.19	30.31
EBITDA Margin	(%)	15.25	12.46	9.62
PAT Margin	(%)	8.95	5.05	10.73
ROCE	(%)	25.40	19.62	14.61
Total Debt/Tangible Net Worth	Times	0.62	0.90	1.28
PBDIT/Interest	Times	7.52	4.13	2.67

Total Debt/PBDIT	Times	1.46	2.32	3.14
Gross Current Assets (Days)	Days	143	138	143

#### 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 IND BBB-(ISSUER NOT COOPERATING).

#### Any other information

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities-<https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

#### Note on complexity levels of the rated instrument

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

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30 th April' 19	Cash Credit	Long Term	15.00	ACUITE BBB Issuer not cooperating*
	Term Loan	Long Term	20.00	ACUITE BBB Issuer not cooperating*
	Letter of Credit	Short Term	13.00	ACUITE A3+ Issuer not cooperating*
05 <sup>th</sup> Feb' 18	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	20.00	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	13.00	ACUITE A3+ (Assigned)

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB/Stable)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Downgraded from ACUITE A3+)
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**About Acuité Ratings & Research:**

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