

Press Release

Shah Sponge & Power Limited

October 07, 2020

Rating Reaffirmed and Assigned



Total Bank Facilities Rated	Rs. 59.00 crore
Long Term Rating	ACUITE BBB-/ Outlook: Negative (Reaffirmed; Outlook revised from Stable)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs 59.00 crore bank facilities of Shah Sponge and Power Limited (SSPL). The outlook is '**Negative**' revised from '**Stable**'.

The revision in rating outlook is primarily due to sharp deterioration in the liquidity profile of the company as evident from high utilisation of bank limits, elongation in the working capital cycle and a current ratio below unity.

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. Currently, the company has sponge iron plant of 4 kilns of 30,000 MT each p.a totaling to 1,20,000 TPA. Recently, the company made a capacity enhancement of 30000 tpa for manufacturing of billets which is expected to start commercial production from December, 2020. The company has an in-house power plant of 15 MW used for captive consumption. SSPL is part of the Shah Group engaged in iron ore mining in Karampada Forest Area in Jharkhand. The company is currently managed by its directors Mr. Shyam Sunder Shah, Mr. Raj Kumar Shah and Mrs. Sumitra Shah.

Analytical Approach

Acuite had previously adopted a consolidated approach for Shah Sponge and Power Limited (SSPL) with its group entity Shah Brothers. Acuite has now revised its analytical approach and has taken a standalone view of the business and financial risk profile of SSPL to arrive at the rating. The change in analytical approach is due to non-availability of information of Shah Brothers with Acuite.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Established in 2005, SSPL is engaged in manufacturing of sponge iron and billets in Jharkhand. The established presence of the company has helped it acquire and maintain long-standing relations with reputed customers and receive repeat orders. The promoters have experience of nearly three decades in mining by virtue of their group firm Shah Brothers and over one decade in the 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 capacities in their sponge iron unit, and also started an in house power generation plant of 15 MW and billet capacity of 1,63,000 tpa. SSPL will continue to benefit from the industry experience of its promoters in improving its business risk profile over the medium term.

- **Healthy scale of operations**

The scale of operation of the company stood healthy at 258.68 crore in FY 2020 as compared to Rs 350.70 crore in FY 2019. Further, it has booked revenue of around Rs 90 crore till mid- September, 2020 (Provisional). The company's revenue declined in FY 2020 due to decrease in realization and decline in production as well over the same period. Sustainability of the group's growth in scale of operation over the medium term would remain a key monitorable.

- **Healthy financial risk profile**

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and moderate debt protection metrics. The net worth of the company stood at Rs. 102.67 crore as on 31 March, 2020 as against Rs. 99.06 crore as on 31st March, 2019. The improvement in networth is due to infusion of the equity share capital of Rs 3.04 crore and retention of profits as well. The gearing (debt-equity) stood low at 0.52 times in FY2020 as against 0.56 times in FY2019. The total debt of Rs. 53.57 crore as on March 31, 2020 consists of short term borrowings of Rs 26.44 crore, term loan of Rs 17.73 crore and unsecured loans from directors and promoters of Rs 6.40 crore. Moreover, the interest coverage ratio (ICR) stood healthy at 3.41 times in FY2020 as compared to 2.80 times in FY2019. The debt service coverage ratio (DSCR) stood low at 0.82 times in FY 2020 as compared to 0.59 in FY 2019. The NCA/TD stood at 0.21 times in FY2020. Acuite believes that the financial risk profile of the company will remain comfortable in the absence of any major debt-funded capex plans in the medium term.

Weaknesses

- **Deterioration in working capital operations**

The working capital operations of the company are moderate, marked by GCA (Gross Current Assets) Days of 85 days in FY 2020 increased from 58 days in the previous year in FY 2019. The inventory days stood comparatively high at 64 days in FY 2020 as compared to 30 days in the previous year. However, the debtor days stood well managed at 7 days in FY 2020 as compared to 10 days in FY 2019. Other Current Assets as on 31st March, 2020 stood at Rs 12.37 crore which mainly consist of advances to suppliers of Rs 7.45 crore and receivables from government authorities for Rs 4.69 crore. The working capital limits remained fully utilized for 6 months ended July, 2020. The working capital operations are expected to remain at similar levels over the medium term due to the payment terms with its customers and suppliers.

- **Intense competition and inherent cyclical nature of steel industry.**

Competition in the Indian secondary steel industry is intense due to the presence of a large number of unorganised players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products predominantly depends on the construction and infrastructure sectors. Thus SSPL's business risk profile is exposed to the inherent cyclicity in these sectors.

Rating Sensitivity

- Elongated working capital cycle
- Improvement in the operating income

Material Covenants

None

Liquidity Profile: Stretched

SSPL has stretched liquidity marked by full utilization of its bank limits for the past 6 months ended July 2020. The working capital operations of the company are moderate, marked by GCA (Gross Current Assets) Days of 85 days in FY 2020 increased from 58 days in the previous year in FY 2019. The current ratio of the company has been at 0.76 times as on March 31, 2020. The company generated cash accruals of Rs 5.21-11.26 crore in FY 2019-2020 while its maturing debt obligations were around Rs 3.85-15.18 crore during the same period. The debt service coverage ratio (DSCR) stood low at 0.82 times in FY 2020 as compared to 0.59 in FY 2019. The cash accruals of the company are estimated to remain in the range of around Rs. 10.63-13.90 crore during 2021-23 against estimated repayment obligation of around Rs. 3.80 crore every year during FY 2021-2023. The firm maintains unencumbered cash and bank balances of Rs. 0.39 crore as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain at similar levels over the medium term.

Outlook: Negative

Acuite believes that SSPL's outlook will be under pressure over near to medium term on account of stretched liquidity and deterioration in their working capital cycle. The rating may be downgraded in case of further elongation in their working capital cycle. Conversely, the outlook may be revised to 'Stable' when the liquidity position of the company improves with improvement in their current ratio and working capital utilization.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	258.63	350.70
PAT	Rs. Cr.	3.62	(2.40)
PAT Margin	(%)	1.40	(0.68)
Total Debt/Tangible Net Worth	Times	0.52	0.56
PBDIT/Interest	Times	3.41	2.80

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18-Jun-2019	Cash Credit	Long Term	18.00	ACUITE BBB-/Stable (Downgraded)
	Term Loan	Long Term	24.00	ACUITE BBB-/Stable (Downgraded)
	Letter of Credit	Short Term	17.00	ACUITE A3 (Downgraded)
30-Apr-2019	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Indicative)
	Term Loan	Long Term	20.00	ACUITE BBB/Stable (Indicative)
	Letter of Credit	Short Term	13.00	ACUITE A3+ (Indicative)
05-Feb-2018	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	5 th February, 2020	Not Applicable	Not Applicable	18.00	ACUITE BBB-/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	5 th February, 2020	10.65% p.a.	January, 2024	21.47	ACUITE BBB-/ Negative (Reaffirmed; Outlook revised from Stable)
Proposed long term facility	Not Applicable	Not Applicable	Not Applicable	2.53	ACUITE BBB-/Negative (Assigned)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Reaffirmed)
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About Acuité Ratings & Research:

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