

Press Release

Shah Sponge & Power Limited

September 20, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité 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**) to the Rs. 59.00 Cr bank facilities of Shah Sponge and Power Limited (SSPL). The outlook has been revised from '**Negative**' to '**Stable**'.

The revision in outlook is on account of overall improvement in the business risk profile of the company marked by steady increase in revenues and substantial improvement in the profitability margins of the company. Further, the revision in the outlook also factors in the continuous improvement in the financial risk profile of the company coupled with the improvement in the company's liquidity position.

The rating continues to reflect the extensive experience of the management and established track record of operation in iron and steel business. The rating also reflects the healthy financial risk profile of the company marked by healthy net worth, low gearing and strong debt protection metrics during the period. However, these strengths are partially offset by working capital intensive nature of operation, intense competition and inherent cyclical nature of the steel industry.

About the company

Incorporated in September 2005, Shah Sponge & Power Limited (SSPL) is a Jharkhand based company promoted by Mr. Sumitra Kumar Shah, Mr. Shyam Sunder Shah and Mr. Raj Kumar Shah. The company has a semi-integrated steel plant and is engaged in the manufacturing of sponge iron & billets with an installed capacity of 1,20,000 tons per annum (tpa) and 88,000 tons per annum (tpa) respectively. Currently the company has four sponge iron kilns with capacity of 100 tonnes per day, and three 12 MT induction furnaces. The company has its manufacturing facility located in Hata, Jamshedpur. The company has an in-house power plant of 15 MW for captive consumption.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SSPL while arriving at the rating.

Key Rating Drivers

Strengths

- Long track record of operations and experienced management**

The company has a long operational track record in the iron & steel industry for more than 15 years. The promoters of the company, Shri Shyam Sunder Shah, Shri Raj Kumar Shah, Mr. Sumitra Kumar Shah and Mr. Satyanand Jha possess more than four decades of experience in the steel industry through other organizations. Acuité believes that the long operational track record of SSPL and longstanding experience of the management will continue to benefit the company going forward, resulting in steady growth in the scale of operations.

- Steady revenues and improved profitability margins**

_____The company has witnessed an improvement in its scale of operations marked by its revenues of Rs. 283.13

Crores in FY2021 as against Rs. 258.63 Crores in FY2020. Further, the company has reported revenues of Rs. 181.98 Crores in 4MFY22(Prov). The growth in turnover has been driven primarily by the increase in the average realization. Despite the disruptions caused by the covid induced lockdown in FY 21, there was an increase in sales for sponge iron in terms of volume in FY 21, though volumewise sale of billets was slightly lower in FY 21 over FY 20.

The operating margin rose to 9.09 per cent in FY2021 from 6.92 per cent in FY2020. The increase in margin was mainly on account of better price realization of the finished products as compared to the operating expenses incurred thereon. The PAT margin of the company increased to 5.06 per cent in FY2021 from 1.40 per cent in FY2020. The increase in profitability margins translated into healthy Return on Capital Employed (ROCE) of the company, which stood at 11.44 per cent as on March 31, 2021 as compared to 7.03 per cent as on March 31, 2020.

- **Healthy financial risk profile**

The company's financial risk profile is marked by healthy net worth, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.139.90 Crores as on March 31, 2021 from Rs.102.67 Crores as on March 31, 2020, on account of capital infusion of Rs. 22.93 Crores in FY 21 as well as ploughing back of profits. The gearing of the company stood low at 0.51 as on March 31, 2021 as compared to 0.52 as on March 31, 2020. The debt of Rs.71.56 Crores in FY 21 mainly consist of long term debt of Rs.52.73 Crores and working capital borrowing of Rs.18.93 Crores. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 6.22 times in FY 2021 as against 3.41 times in FY 2020; and Debt Service Coverage Ratio (DSCR) at 3.17 times in FY 2021 as against 0.82 times in FY 2020. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.31 times as on March 31, 2021. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.78 times as on March 31, 2021 as against 1.00 time as on March 31, 2020. Acuite believes that going forward, the financial risk profile of the company will remain healthy backed by steady accruals and absence of any major debt funded capex plan.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of the company is marked by high Gross Current Assets (GCA) of 143 days as on March 31, 2021 as against 85 days as on March 31, 2020. The increase in GCA days as on March 31, 2020 was mainly on account of the pandemic causing disruptions in the supply chain management. Relatively higher GCA days as on March 31, 2021 were primarily on account of the increase in the inventory holding level of 126 days as on March 31, 2021 as against 64 days as on March 31, 2020. The debtor days continue to remain low at 1 day as on March 31, 2021 as against 7 days as on 31st March 2020. Going forward, Acuite believes that the working capital operations of the company will remain at improved levels as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

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

The industry remained heavily fragmented and unorganized. The company is exposed to intense competitive pressures from large number of organized and unorganized players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation in working capital management

Material Covenant

None

Liquidity Profile: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.22.10 Crores in FY 2021 as against long term debt repayment of Rs. 3.85 Crores during the same period. The cash accruals of the

company are expected to remain in the range of Rs. 27.66 Crores to Rs. 31.89 Crores during FY 2022-24, as against long term debt obligations in the range of Rs. 4-5 Crores for the corresponding period. The current ratio stood moderate at 1.24 times as on March 31, 2021. The working capital management of the company, however, as marked by Gross Current Asset (GCA) of 143 days in FY 2021, stood high. The bank limit of the company has been ~91 per cent utilized during the last the six months ended July, 2021. The cash and bank balances of the company stood at Rs.0.24 Crores as on March 31, 2021 as compared to Rs.0.39 Crores as on March 31, 2020. Acuite believes that going forward the company will continue to maintain its adequate liquidity position owing to steady accruals and decrease in current debt obligations.

Outlook: Stable

Acuite believes that SSPL will maintain a 'Stable' outlook and continue to benefit over the medium term from the extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability or stretch in working capital cycle, weakening the overall financial risk profile.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	283.13	258.63
PAT	Rs. Cr.	14.32	3.62
PAT Margin	(%)	5.06	1.40
Total Debt/Tangible Net Worth	Times	0.51	0.52
PBDIT/Interest	Times	6.22	3.41

Status of non-cooperation with previous CRA

India Ratings, vide its press release dated July 9, 2021 had reaffirmed the rating of Shah Sponge and Power Limited at 'IND BB/A4+; ISSUER NOT COOPERATING'.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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	Ratings/Outlook
			(Rs. Crore)	
07-Oct-2020	Cash Credit	Long term	18.00	ACUITE BBB-/ Negative (Reaffirmed; Outlook revised from Stable)
	Term Loan	Long Term	21.47	ACUITE BBB-/ Negative (Reaffirmed; Outlook revised from Stable)
	Proposed Fund based facilities	Long term	2.53	ACUITE BBB-/ Negative (Assigned)
	Letter of Credit	Short Term	17.00	ACUITE A3 (Reaffirmed)
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 (Indicative)
	Term Loan	Long Term	20.00	ACUITE BBB (Indicative)
	Letter of Credit	Short Term	13.00	ACUITE A3+ (Indicative)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	05-Feb-2020	Not Applicable	Not Applicable	18.00	ACUITE BBB-/ Stable (Reaffirmed; Outlook revised from Negative)
State Bank of India	Term Loan	05-Feb-2020	10.65% p.a.	January, 2024	21.47	ACUITE BBB-/ Stable (Reaffirmed; Outlook revised from Negative)
Not Applicable	Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	2.53	ACUITE BBB-/ Stable (Reaffirmed; Outlook revised from Negative)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Reaffirmed)

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