

Press Release

Shah Sponge & Power Limited

March 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.90	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	59.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	8.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	98.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed and assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 89.90 Cr bank facilities of Shah Sponge and Power Limited (SSPL). - Acuite has also assigned the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 8.50 Cr bank facilities of the company. The outlook remains '**Stable**'.

The rating on SSPL takes into account the sound business position of the company as reflected from its revenue growth in the current year coupled with management's long track record in the sector, comfortable financial risk profile characterized by healthy network base and strong debt protection metrics. The rating also draws comfort from the adequate liquidity position of the company. These strengths are however, partly offset by the cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

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. SSPL has also setup a fly ash brick plant which commenced its operations in June 2021.

Analytical Approach

Acuite 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 supported with semi-integrated nature of operations**

The company has a long operational track record in the iron & steel industry for more than 15 years. SSPL's board of directors comprise of four directors namely Shri Shyam Sunder Shah, Shri Raj Kumar Shah, Mr. Sumitra Kumar Shah and Mr. Satyanand Jha. The management has more than four decades of experience in the steel industry. Acuité believes that the long operational track record of SSPL and long experience of the management will continue to benefit the company going forward, resulting in steady growth in the scale of operations. Further, the semi-integrated nature of operations of the company provides efficiency in terms of operations and mitigates the risks arising from the cyclical nature of steel industry to some extent.

- **Improvement in operating income and profitability margins**

The company has witnessed an improvement in its scale of operations marked by its revenues of Rs. 283.13 Crs in FY2021 as against Rs. 258.63 Crs in FY2020. The growth in sales in FY21 over FY 20 is mainly attributable to better realization of prices, both for billet and sponge iron and a strong rebound in steel demand post unlocking of the economy. 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 healthy performance continued in 9M FY2022 with the company posting an operating income of Rs. 396.17 Crs till December 2021 (Provisional).

The operating margin rose to 9.09 per cent in FY2021 from 6.92 per cent in FY2020. 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. In FY2021, there was growth in profitability margins, primarily on account of high demand, better pricing power and variable cost reduction through operational efficiencies in production processes. In addition, it has a 15-MW captive power plant, which meets its power requirement to a large extent, reducing its dependence on external power, and leading to a competitive cost structure. Despite a buoyancy in realisations in current year, Acuité expects a significant increase in raw material prices (mainly iron ore and imported thermal coal) is likely to limit the margin expansion to some extent for the remainder of FY22.

- **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 Crs as on March 31, 2021 from Rs.102.67 Crs as on March 31, 2020, on account of capital infusion as well as ploughing back of profits. Gearing of the company stood comfortable at 0.51 as on March 31, 2021 as compared to 0.52 as on March 31, 2020. 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. The strong 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. The surge in earnings in FY2021 led to an improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.31 times as on March 31, 2021. However, Acuité notes that the company is yet to finalise its sizeable capex plan envisaged earlier but, is likely to embark on a greenfield or brownfield project with a cost outlay of Rs. 100 crore approximately in the near term.

Weaknesses

- **Moderate working capital management**

The working capital management of the company stood moderate marked by 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 dominance 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 company does bulk procurement to benefit from prices leading to higher inventory holding. 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, Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from the high level of inventory period over the medium term.

- **Exposure to inherent cyclicity in and competitive & capital intensive nature of steel sector**

The group's performance remains vulnerable to cyclicity in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. While there has been a significant push by the government on steel-intensive sectors such as railways and infrastructure, any sustained downturn in demand will adversely impact performance of steel companies.

The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies. Also, steel imports from other countries, mainly China, add to the competition. Additionally the domestic steel sector is fairly capital intensive.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by healthy net cash accruals which stood at Rs.22.10 Crs in FY 2021 as against long term debt repayment of only Rs. 3.85 Crs during the same period. The fund based limit remains moderately utilised at ~84 per cent over the six months ended January, 2022. Further, the current ratio also stood comfortable at 1.71 times as on March 31, 2021. The cash and bank balances of the company stood at Rs.0.24 Crs as on March 31, 2021 as compared to Rs.0.39 Crs as on March 31, 2020. The working capital management of the company is moderate as reflected by Gross Current Assets (GCA) of 143 days as on March 31, 2021 as against 85 days as on March 31, 2020. Acuité believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals and decrease in current debt obligations.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (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 (if applicable)

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

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Sep 2021	Letter of Credit	Short Term	17.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	2.53	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	21.47	ACUITE BBB- Stable (Reaffirmed)
07 Oct 2020	Letter of Credit	Short Term	17.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB- Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	2.53	ACUITE BBB- Negative (Assigned)
	Term Loan	Long Term	21.47	ACUITE BBB- Negative (Reaffirmed)
18 Jun 2019	Term Loan	Long Term	24.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB)
	Letter of Credit	Short Term	17.00	ACUITE A3 (Downgraded from ACUITE A3+)
30 Apr 2019	Letter of Credit	Short Term	13.00	ACUITE A3+ (Issuer not co-operating*)
	Term Loan	Long Term	20.00	ACUITE BBB (Issuer not co-operating*)

	Cash Credit	Long Term	15.00	ACUITE BBB (Issuer not co-operating*)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	16.35	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	11.55	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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