



Press Release
Shah Sponge & Power Limited July
24, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	98.40	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	173.40	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.98.40 Cr bank facilities of Shah Sponge and Power Limited (SSPL). The outlook remains **'Stable'**.

Acuite has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.75.00 Cr bank facilities of Shah Sponge and Power Limited (SSPL). The outlook remains **'Stable'**.

Rationale for rating reaffirmation

The rating takes into account the healthy business risk profile of the company, marked by sustained improvement in scale of operations backed by an increase in realisations of sponge iron and the semi integrated nature of operations. The rating factors in established operations with experienced management in the steel industry. The rating also draws comfort from the healthy financial risk profile and adequate liquidity position of the company.

Acuite also takes note of the ongoing capex plan to increase the manufacturing capacities of the company, which is being funded through both long-term debt and internal accruals. The commercial operations are expected to begin in April 2024. However, the financial risk profile of the company is expected to deteriorate with the addition of new debt in the near term. Furthermore, the profitability of the company witnessed deterioration and remains susceptible to volatility in raw material prices, and the operations remain exposed to the cyclical nature of the steel industry.

About the Company

incorporated in 2005, Shah Sponge and Power Limited (SSPL) is based in Jharkhand and promoted by Ms. Sumitra Kumar Shah, Mr. Shyam Sunder Shah and Mr. Raj Kumar Shah. SSPL has a semi-integrated steel plant, engaged in the manufacturing of sponge iron and billets having an installed capacity of 1,20,000 MTPA and 88,000 MTPA respectively. The manufacturing facility of the company is located in the village Juri (Hata, near Jamshedpur).

Analytical Approach

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

Key Rating Drivers

Established track record of operations aided by a semi-integrated manufacturing facility

SSPL has established a long track record of operations spanning over a decade in the iron and steel industry. The company is managed by Shri Shyam Sunder Shah and Shri Raj Kumar Shah, who have extensive industry knowledge of more than four decades. Acuité believes that the extensive experience of the management and the long track record of operations at SSPL will continue to benefit the company's growth plans going forward.

The company has a partially integrated steel manufacturing facility engaged in the manufacturing of sponge iron, billets, and eco-friendly fly ash brick. The sponge iron required for the production of billets is met entirely through the in-house production of sponge iron. The surplus production of sponge iron is sold to other billet manufacturers in the market. Acuité believes 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 scale of operations

The company registered an improvement in scale of operations and achieved revenues of Rs.522.80 Cr in FY2023 (provisional) as against Rs.519.01 Cr in FY2022 and Rs.283.13 Cr in FY2021, thereby, registering a CAGR of 35.94 percent over the two years. The upsurge in operating income is on account of an increase in average realisations supported by a favourable demand scenario for sponge iron and the semi-integrated nature of operations. The growth in revenues was also supported by healthy demand and growth in production levels at the company during the period.

The company has undertaken a capex plan to install one DRI Kiln of 350 TPD and one Waste Heat Recovery Boiler (WHRB) of 45 TPH which will likely enhance the capacity of the sponge iron from the existing 1,20,000 MTPA to 2,25,000 MTPA and is also expected to reduce the power cost of the company. The project already commenced in April, 2023 and is expected to be completed by March, 2024 with trial runs starting in the same month. The commercial operations are expected to start in April, 2024. The total cost of the project is Rs.114.35 Cr out of which, Rs.75 Cr will be funded through a term loan and the rest is to be financed by internal accruals and unsecured loans.

Acuité believes that going forward, the scale of operations will remain healthy over the medium term, driven by capacity additions, an established market position, and the continued thrust on infrastructure development, along with a pick-up in real estate and construction activities by the government.

Healthy financial risk profile

The healthy financial risk profile of the company is marked by a healthy net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company increased Rs.154.93 Cr as on March 31, 2023 (Provisional) from Rs.146.60 Cr as of March 31, 2022, on account of the accretion of profits. The gearing of the company remained comfortable at 0.60 as on March 31, 2023 (provisional) as compared to 0.59 as of March 31, 2022 on account of a low debt burden. However, with the ongoing capex plan and addition of new debt, the gearing level of the company is expected to deteriorate in the near term. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.77 times as of March 31, 2023 (provisional) as against 0.90 times as on March 31, 2022. The debt protection matrices of the company remain comfortable, marked by Interest Coverage Ratio (ICR) of 3.26 times and Debt Service Coverage Ratio (DSCR) of 1.82 times in FY 2023 (provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.19 times as on March 31, 2023 (provisional). Acuité believes that, going forward, the gearing is expected to moderate on the back of ongoing capex; however, the financial risk profile of the company will remain healthy backed by improvements in the accruals.

Weaknesses

Volatile profitability margins

The profitability margins of the company have witnessed moderation over the past two years.

The operating margin marginally improved to 5.55 percent in FY2023 (provisional) from 5.36 percent in FY2022 and 9.09 percent in FY2021. The fluctuations in the margin is on account of fluctuating raw material costs. The PAT margin stood at 1.59 percent in FY2023 (provisional), against 1.29 percent in FY2022 and 5.06 percent in FY2021. Also, the profitability of the company remained susceptible to volatility in raw material prices. However, with the 15-MW captive power plant and new capex plans, the volatility in raw material prices is mitigated to some extent.

Exposure to the cyclical and competitive steel sector

The company's performance remains vulnerable to cyclical in the steel sector given the close linkage between the demand for steel products and the domestic and global economies. 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 the performance of steel companies. The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies. Additionally, the domestic steel sector is fairly capital intensive.

Rating Sensitivities

- Growth in the scale of operations along with improvement in the profitability margins
- Sustenance of the capital structure
- Timely completion of the project

Material covenants

None

Liquidity Position: Adequate

The adequate liquidity position of the company is reflected by the healthy net cash accruals of Rs.17.28 Cr in FY2023 (provisional) as against the long term debt repayment of only Rs.5.44 Cr during the same period. The fund based limit remains moderately utilised at 84 percent over the six months ended January, 2023. The current ratio stood at 1.42 times as of March 31, 2023 (provisional) and as of March 31, 2022 as well. The cash and bank balances of the company stood at Rs.5.47 Cr as on March 31, 2023 (provisional). The working capital management of the company is efficient in nature, as evidenced by Gross Current Assets (GCA) of 94 days as of March 31, 2023 (provisional) as against 103 days as of March 31, 2022. Acuité believes that going forward, the company will maintain an adequate liquidity position on account of improving accruals.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position, and healthy financial risk profile. The outlook may be revised to 'Positive' in the case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure, and working capital management. Conversely, the outlook may be revised to 'Negative' in the event of a decline in the company's revenues or profit margins, a deterioration in the company's financial risk profile, a delay in the completion of its projects, or a further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	519.01	283.13
PAT	Rs. Cr.	6.70	14.32
PAT Margin	(%)	1.29	5.06
Total Debt/Tangible Net Worth	Times	0.59	0.51
PBDIT/Interest	Times	3.63	6.22

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

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 May 2023	Cash Credit	Long Term	42.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	9.78	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	27.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.30	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.63	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	13.69	ACUITE BBB- Stable (Reaffirmed)
07 Mar 2022	Working Capital Term Loan	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	7.50	ACUITE A3 (Assigned)
	Term Loan	Long Term	11.55	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	1.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	16.35	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	42.50	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	27.50	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	13.69	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.30	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.63	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.78	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	40.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	35.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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