



Press Release
Shah Sponge & Power Limited
October 09, 2024
Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	160.76	ACUITE BBB- Reaffirmed & Withdrawn	-
Bank Loan Ratings	12.64	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	173.40	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn its long-term rating to 'ACUITE BBB- '(read as ACUITE triple B minus) on bank facilities of Rs.160.76 Cr. of Shah Sponge and Power Limited. Acuite has also withdrawn the proposed long-term facility of Rs.12.64 Cr. without assigning any rating as it is a proposed facility of Shah Sponge and Power Limited. The rating has been withdrawn as per Acuite's policy of withdrawal of ratings as applicable to the respective instrument/facility. The rating has been withdrawn on account of the request received from the company and NOCs (No Objection Certificates) received from the respective bankers.

Rating Rationale for Reaffirmation

The rating continues to reflect the extensive experience of the management in the iron and steel industry along with decline in profitability margins. It also considers the moderate financial risk profile of the company characterized by healthy network, gearing below unity, low debt coverage indicators and adequate liquidity. 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 2025. These strengths are, however, partly offset by cyclical nature of the steel industry and the volatility in commodity prices resulting in slight decline in operating margin.

About the Company

Kolkata Based, Shah Sponge and Power Limited (SSPL) was incorporated in 2005. The company is engaged in manufacturing sponge iron, billets and fly ash bricks. SSPL has set up its semi-integrated steel plant at village Juri at Hata from steel city Jamshedpur. Currently Ms. Sumitra Kumar Shah, Mr. Shyam Sunder Shah, Mr. Raj Kumar Shah and Mr. Satya Nand Jha are the directors of the company.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

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. Acuite 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.

The company is installing a Direct Reduced Iron of 350 TPD, a Waste Heat Recovery Boiler of 42 TPH and 15MW captive power plant which will increase the manufacturing capacities of the company. The commercial operations are expected to begin in April 2025.

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 to produce 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. Acuite 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.

Moderate Financial Risk Profile

The financial risk profile of the company is marked by healthy net worth, gearing below unity and low debt protection metrics. The net worth of the company stood at Rs.169.59 Cr. in FY24 (Prov.) as against Rs.160.34 crore in FY2023 and Rs.146.60 crore in FY2022 due to low accretion of reserves. The gearing stood comfortable at 0.75 times in FY24 (Prov.) as compared to 0.58 times in FY2023 and 0.59 times in FY2022. Going forward, with ongoing capex plans to be funded through bank loans as well as promoter's contribution. Interest coverage ratio stood at 2.84 times in FY2024 (Prov.) as against 3.80 times in FY2023 and 3.63 times in FY2022. The debt service coverage ratio stood at 1.53 times in FY24 (Prov.) as against 2.18 times in FY2023 and 1.80 times in FY22. The net cash accruals to total debt (NCA/TD) stood at 0.12 times in FY2024 (Prov.) as against 0.25 times in FY2023 and 0.17 times in FY22. Acuite believes the financial risk profile of the company will remain moderate.

Moderate Working Capital Management

The moderate working capital management of the company is marked by Gross Current Assets (GCA days) of 111 days in FY24 Prov. As against 107 days in FY23 and 103 days in FY22. The inventory days stood at 86 days in FY24 Provisional as against 84 days in FY23 and 90 days in FY22. The debtor days stood at nil in FY24 Provisional and FY23 compared to 1 day in FY22. The creditor days stood at 3 days in FY24 Provisional and FY23 as against 5 days in FY22. Acuite believes that the working capital operations of the company will remain moderate.

Weaknesses

Decline in revenue along with margins

The company has achieved an operating income of Rs.500.92 Cr. in FY24 Provisional as compared to Rs.527.30 Cr. in FY23 and Rs.519.01 Cr. in FY22. The prices of raw materials were fluctuating, leading to decline in price realisations from sale of products. This also led to a marginal decrease in capacity utilization of sponge iron. However, efficient operations have partially offset the decline through significant increase in billet capacity utilization. The company has reported revenues of ~Rs.180 Cr. till August 2024. The EBITDA margin stood at 5.45 percent in FY24 Provisional as against 6.58 percent in FY23 and 5.36 percent in FY22. This margin depends upon the fluctuations in raw material prices. The PAT margin stood at 1.27 percent in FY24 Provisional as compared to 2.62 percent in FY23 and 1.29 percent in FY22. Tax of Rs.2.89 Cr. is considered on assumption as the numbers are provisional. Acuite believes that the scale of operations will improve due to capacity additions.

Exposure to the cyclical and competitive steel sector

The company'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 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 capital intensive.

Rating Sensitivities

Not Applicable

Liquidity Position

Adequate

The liquidity position of the company is adequate reflected by the net cash accruals of Rs.14.82 Cr. in FY2024 (provisional) as against the long-term debt repayment of Rs.6.38 Cr. during the same period. There is an unsecured loan from director of Rs.1.00 Cr. in FY24 Provisional. The fund-based (consolidated) limit remains moderately utilised at 87.89 per cent and non-fund-based limit (consolidated) utilized at 8.86 percent over ten months ended August 2024. The current ratio stood at 1.54 times in FY24 Provisional as against 1.64 times in FY2023 and 1.42 times in FY2022. The cash and bank balances of the company stood at Rs.0.29 Cr. in FY24 Prov. The working capital management of the company is marked by Gross Current Assets (GCA) of 111 days as on March 31, 2024 (provisional) as against 107 days as on March 31, 2023, and 103 days as on March 31, 2022. Acuite believes that going forward the company will maintain adequate liquidity position on account of steady accruals and flexibility to bring unsecured loans.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	500.92	527.30
PAT	Rs. Cr.	6.36	13.82
PAT Margin	(%)	1.27	2.62
Total Debt/Tangible Net Worth	Times	0.75	0.58
PBDIT/Interest	Times	2.84	3.80

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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
24 Jul 2023	Cash Credit	Long Term	42.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	27.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.63	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	9.78	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	40.00	ACUITE BBB- Stable (Assigned)
	Covid Emergency Line.	Long Term	13.69	ACUITE BBB- Stable (Reaffirmed)
	Covid Emergency Line.	Long Term	1.30	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	35.00	ACUITE BBB- Stable (Assigned)
29 May 2023	Covid Emergency Line.	Long Term	13.69	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	9.78	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.63	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	27.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	42.50	ACUITE BBB- Stable (Reaffirmed)
	Covid Emergency Line.	Long Term	1.30	ACUITE BBB- Stable (Reaffirmed)
07 Mar 2022	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	11.55	ACUITE BBB- Stable (Assigned)
	Covid Emergency Line.	Long Term	16.35	ACUITE BBB- Stable (Assigned)
	Covid Emergency Line.	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	7.50	ACUITE A3 (Assigned)
	Proposed Short Term Bank Facility	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BBB- Stable (Reaffirmed)
20 Sep 2021	Proposed Long Term Bank Facility	Long Term	2.53	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	21.47	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A3 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	42.50	Simple	ACUITE BBB- Reaffirmed & Withdrawn
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	27.50	Simple	ACUITE BBB- Reaffirmed & Withdrawn
State Bank of India	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2028	7.88	Simple	ACUITE BBB- Reaffirmed & Withdrawn
Axis Bank	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2026	1.13	Simple	ACUITE BBB- Reaffirmed & Withdrawn
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	12.64	Simple	Not Applicable Withdrawn
Union Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2033	35.00	Simple	ACUITE BBB- Reaffirmed & Withdrawn
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2027	4.71	Simple	ACUITE BBB- Reaffirmed & Withdrawn
Axis Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2026	2.04	Simple	ACUITE BBB- Reaffirmed & Withdrawn
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2033	40.00	Simple	ACUITE BBB- Reaffirmed & Withdrawn

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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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