

Press Release

Shakambhari Ispat & Power Limited

13 May 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 963.57 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the above mentioned bank facilities of Shakambhari Ispat & Power Limited (SIPL). The outlook is '**Stable**'.

SIPL was incorporated in 2001 as Ma Chhinnamastika Steel & Power Pvt. Ltd. Later in December 2010, company was acquired by Shakambhari Group and the name of company was changed to Shakambhari Ispat & Power Limited. SIPL has an integrated manufacturing facility of TMT bars with captive sponge iron and mild steel billets plants supported by captive power plants. The company sells their TMT bars under the brand name of 'Thermocon'. SIPL's manufacturing unit is located in Purulia, West Bengal which has recently completed a significantly large capex. The day to day operations of the company are managed by their director, Mr. Deepak Agarwal along with qualified professionals.

The Shakambhari group has acquired SPS Steel Rolling Mills Limited (SPS) from National Company Law Tribunal (NCLT) in April 2019. The acquisition has been supported by SIPL in the form of unsecured loans extended to SPS to clear off their external debt obligations.

Analytical Approach

Acuité has taken a consolidated view of Shakambhari Ispat & Power Limited and SPS Steel Rolling Mills Limited as both the entities are in same line of business, share a common management and has significant financial linkage between them. The group herein is referred to as Shakambhari Group.

Key Rating Drivers

Strengths

Long operational track record and experienced management

SIPL was incorporated in October 2001 in name of Ma Chhinnamastika Steel & Power Pvt. Ltd. The original promoters had sold the company to Shakambhari group December 2001. Thereafter in 2010, the name of the company was changed to its current name. The key promoter, Mr. Deepak Agarwal has more than 2 decades of experience in the steel industry. Over the years, the company has been able to establish strong contacts with their key suppliers and customers and also develop their brand 'Thermocon'. Post the acquisition of SPS, the business profile of the group has strengthened further due to their existing brand along with the established brand of 'Elegant'. The group now caters to around 80 distributors and 1000 dealers spread across Eastern and Northern India. Acuité believes that the group will continue to benefit from their experience management and the well established brand of TMT bars.

Comfortable financial risk profile

The comfortable financial risk profile of the group is marked by its healthy net worth, modest gearing ratio and comfortable debt protection metrics. The net worth of the group stood at Rs. 588.31 Cr. as on 31st March'2019 as compared to Rs 549.03 Cr. in the previous year. In FY 20, net worth of the group has

improved substantially due to infusion of Rs 68 crores of equity share capital. Net worth of the group is likely to around Rs 708 crores in FY20. The gearing of the company had increased to 1.20 times as on 31st March 2019 as against 0.69 times as on 31st March, 2018 because of debt funded expansion capex plan. In FY 20, the ratio is likely to deteriorate to 1.49 times. The sharp increase in their debt to equity ratio is mainly due to SIPL incurring a capital expenditure of around Rs. 874 crores which had been funded mainly from Rs. 471 crores of bank debt and Rs. 338 crores of equity infusion. The said capex has been incurred in the past 3 years till FY'20 and has been completed in January 2020. Moreover, SIPL has availed of an additional loan to the tune of Rs. 165 crores and has extended the amount to SPS. SIPL has enhanced their working capital limits to fund their increased working capital requirement in line with their increased scale of operations expected post their expansion. Interest coverage and DSCR stood at 4.15 times and 1.72 times in FY19 as against 3.17 times and 1.71 times in FY18 respectively. Interest coverage and DSCR are expected to stand around 3.14times and 1.79 times in FY20. NCA/TD is likely remain at 0.09 times in FY20 as against 0.09 times in previous year. Going forward, Acuité believes the financial risk profile will gradually improve over the medium term due to improvement in their scope of operations and improved profitability leading to increased net cash accruals.

Weaknesses

Working capital intensive

The group has high working capital intensity as evident from its high gross current asset (GCA) days of 162 days in FY'19 and 213 days in the previous year. The high GCA days are due to high work in progress inventory of around 66 days and debtors of around 54 days as on March 31, 2019. In FY20, GCA days is expected to remain high at 182 days in FY20 due to rise in debtor days.

Vulnerability of the steel market due to Covid-19

The demand of steel products is likely to be low in near term as there is fall in demand across end-users segment such as construction, engineering and real estate segments due to pandemic outbreak. The group is engaged in the production of long steel products, the demand for which is directly dependent on primarily the construction segment thus making it susceptible to the downturn in the ongoing slowdown. The muted growth is expected to continue till H1FY'21 mainly due to constraints related to labour and disruptions in the supply chain. Acuité expects the demand scenario to scale up from the second half of the current fiscal with rising demand from Infrastructure and construction sectors.

Rating Sensitivity

- Substantial improvement in the scale of operation along with improvement in profitability margins.
- Improvement in liquidity profile.

Material Covenant

None

Liquidity Profile: Adequate

The group has an adequate liquidity position driven by sufficient cash accruals vis-vis its loan repayment obligations. The net cash accruals of the group are expected at around Rs. 92-95 -crores as against loan repayments of Rs. 72 crores during the same period. Net cash accrual of group is likely to improved Rs 107 crores in FY21. However, SIPL has applied for deferment in their term loan instalments and interest obligations till May 2020. The networth of the group is expected at around Rs. 708 crores ad on March 31, 2020. The operations of the group are working capital intensive as evident from GCA days of around 182 days in FY'20 as compared to 162 days in the previous year. The working capital intensity is also reflected from their high utilization of bank limits of around 98 to 100 percent in the last six months till February 2020. Acuité expects the liquidity position to ease from H2FY2021 post Covid19 stabilization thereby reaping the benefits of their enhanced capacities.

Outlook: Stable

Acuité believes the outlook of Shakambari group will remain 'Stable' over the medium term backed by its long track record of operations and established brand. The outlook may be revised to 'Positive' if the group is able to ramp up its scale of operations significantly thereby resulting in improved cash accruals and better liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in scale of operation or further elongation in its working capital operations.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1207	904
PAT	Rs. Cr.	39.29	22.82
PAT Margin	(%)	3.25	2.52
Total Debt/Tangible Net Worth	Times	1.20	0.69
PBDIT/Interest	Times	4.15	3.17

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>
- 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)

NA

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	262	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30	ACUITE A3 (Assigned)
Letter Credit	Not Applicable	Not Applicable	Not Applicable	105	ACUITE A3 (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE BBB-/Stable (Assigned)
Term Loan	March 2017	Not Applicable	December 2020-March 2030	493.57	ACUITE BBB-/Stable (Assigned)
Proposed LC	Not Applicable	Not Applicable	Not Applicable	35	ACUITE A3 (Assigned)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Tonoy Banerjee Rating Analyst Tel: 033-66201206 tonoy.banerjee@acuite.in	

About Acuité Ratings & Research:

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