Press Release

SPS Steels Rolling Mills Limited

12 August 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 235.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB-' (read as ACUITE BBB minus)** on the Rs. 235.00 crore bank facilities of SPS Steels Rolling Mills Limited (SPS). The outlook is **'Stable'**.

SPS Rolling Mills Limited (SPS) was established in 1981 by Mr Bipin Vohra. The company is an integrated steel manufacturing unit with facilities of sponge iron, billets and rolling mill. The manufacturing unit of the company is located in Durgapur, West Bengal. The company sells its TMT bars under the brand name of 'Elegant'. The Elegant brand has a strong market presence and high brand value in Eastern India. In FY18, SPS was referred to the National Company Law Tribunal (NCLT) for failure to meet its loan obligations. The company was acquired by the Shakambhari group from NCLT in April 2019. The acquisition has been supported by Shakambhari Ispat & Power Limited (SIPL) in the form of unsecured loans extended to SPS to clear off their external obligations.
In FY20, the company had registered a substantial improvement in topline with a comfortable EBITDA margin as compared to historical losses during the last couple of years. This improvement was driven by a rise in capacity utilisation and an increase in sales volume.

Shakambhari Ispat & Power Limited (SIPL) was incorporated in 2001 as Ma Chhinnamastika Steel & Power Pvt. Ltd. Later in December 2010, the company was acquired by Shakambhari Group and the name of the company was changed to Shakambhari Ispat & Power Limited. SIPL also 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 its 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.

Analytical Approach

Acuité has taken the consolidated view of Shakambhari Ispat & Power Limited and SPS Steel Rolling Mills Limited, as both the entities are in the same line of business, share common management and has the 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 the name of Ma Chhinnamastika Steel & Power Pvt. Ltd. The original promoters had sold the company to Shakambhari group in 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 its 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 its 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. 646.45 Cr. as on 31st March'2020 (Provisional) as compared to Rs 588.31 Cr. in the previous year. In FY 20, net worth of the group had improved substantially due to infusion of Rs 68 crore of equity share capital. The gearing of the group had increased to 1.77 times as on 31st March 2020 as against 1.20 times as on 31st March, 2019 because of debt-funded capital expenditure of around Rs. 874 crore in SIPL. This capex was funded mainly from Rs. 471 crores of bank debt and Rs. 338 crores of equity infusion. The said capex was completed in January 2020. Moreover, SIPL had availed of an additional loan to the tune of Rs.165 crore, which was extended to SPS. SIPL had enhanced its working capital limits to fund their increased working capital requirement. Interest coverage and DSCR stood at 2.75 times and 1.60 times in FY20 as against 4.15 times and 1.72 times in FY20 respectively. This deterioration is on account of a rise in financial cost as debt level had increased in FY20. NCA/TD stood at 0.07 times in FY20 as against 0.09 times in the 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 182 days in FY'20 and 162 days in the previous year. The high GCA days are due to the high level of finished goods and raw material inventory of around 102 days and debtors of around 50 days as on March 31, 2020.

Vulnerability of the steel market due to Covid-19

The demand for steel products is likely to be low in the near term as there is a fall in demand across end-users segments 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 at least 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 stood at Rs. 85.14 crore in FY20 as against current maturity of Rs. 59.51 crore. Net cash accrual of the group is likely to improve Rs 93-95 crore in FY21 as against loan repayment of around Rs 50.2 crore. However, SIPL has applied for deferment in their term loan installments and interest obligations untill August 2020. The networth of the group stood at 646.45 crores as 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 stabilisation, thereby reaping the benefits of their enhanced capacities.

Outlook: Stable

Acuité believes the outlook on Shakambhari group will remain 'Stable' over the medium term backed by its long track record of operations and established brands. 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 a decline in the scale of operation or further elongation in its working capital operations.

About the Rated Entity - Key Financials

Consolidate financial	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	1902.40	1207.24
PAT	Rs. Cr.	48.48	39.29
PAT Margin	(%)	2.55	3.25
Total Debt/Tangible Net Worth	Times	1.77	1.20
PBDIT/Interest	Times	2.75	4.15

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
- Criteria for consolidated of companies - https://www.acuite.in/view-rating-criteria-60.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
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB-/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	165.00	ACUITE BBB-/Stable (Assigned)

Contacts:

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

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