

Press Release

SPS Steels Rolling Mills Limited

October 05, 2021

Rating Upgraded



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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE BBB+' (read as ACUITE Triple B plus)** from **'ACUITE BBB-' (read as ACUITE Triple B minus)** on the Rs. 235.00 Cr bank facilities of SPS Steels Rolling Mills Ltd (SPS). The outlook is **'Stable'**.

The rating upgrade is mainly driven by a significant improvement in operational performance along with rise in profitability margin in the previous and the current fiscal. The group has registered a strong revenue growth in FY21 backed by rise in sale volumes and average realization of both intermediate and finished goods due to increasing demand from end user industries. The improvement in the operating margins reflect the benefit of backward integration and the increase in captive consumption of intermediate goods and power.

The rating also continues to factor in the healthy business profile of the group marked by its long operational track record and established TMT steel brands in Eastern India. The rating also takes into account the group's comfortable financial risk profile marked by sound net worth and moderate capital structure. However the rating strengths are partially offset by the cyclical nature of the steel industry and high working capital requirement in the business. Any further debt funded capital expenditure programme in the group would remain a rating sensitivity factor.

About the group

SPS Rolling Mills Limited (SPS) was established in 1990 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 company was acquired by the Shakambhari group from NCLT in April 2019. SPS's manufacturing unit is located in Durgapur, West Bengal. The company has an installed capacity of 165,000 MTPA for sponge iron, 99,000 MTPA for billet and 165,000 MTPA for rolled product.

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. The company has installed capacity of 543,000 MTPA for sponge iron, 338,400 MTPA for billet, 256,000 MTPA for rolled product, 39,252 MTPA for ferro alloy and 52 MW of captive power plant.

The standalone performance of the SPS reflects substantial improvement in scale operation and profitability Margin. The Company has posted a revenue growth of 31.03 percent with EBITDA margin of 8.74 percent in FY21. In addition, the interest coverage stood comfortable at 3.34 times and modest debt equity ratio stood at 4.08 times as on 31.03.2021.

Analytical Approach:

Acuite has taken a 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 significant financial linkage between them. Shakambhari Ispat & Power Limited (SIPL) had extended unsecured loan to SPS to clear off their external obligation which has now been cleared off. The group herein is referred to as Shakambhari Group. Extent of consolidation: Full.

Key Rating Drivers:

Strengths

Long operational track record and strong brand recall

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. In FY20, the group had acquired SPS from NCLT which strengthened their business profile. Currently the group is selling TMT Bars in the eastern and northern parts of India such as West Bengal, Jharkhand, UP, Bihar Assam and Punjab through its extensive distribution channels which includes 12000 dealers and 1900 distributors. The group has two established brands 'Thermocon' and 'Elegant' which have a strong brand recall in West Bengal and its neighbouring states. Acuite believes that the group will continue to benefit from their experienced management and their well-established brands.

Integrated operation

The group has integrated operations with capacities to produce sponge iron, steel billets and long products across both the entities – SIPL and SPS. The aggregate installed capacity of the Shakambhari Group is 603,000 MT of sponge iron, 437,400 MT of billets, 39252 MTPA of ferro alloys, 421,000 MT of rolled steel products and 52 MW of captive power plant. The group had added 198,000 MTPA of sponge iron capacity, 13000 MTPA of ferro alloy and 14 MW of waste heat recovery plant (which will replace 14 MW of existing coal based plant) in SIPL during FY21 through a debt funded capex plan of Rs 122 Cr. The same was funded through Rs 76 Cr of external borrowing and remaining from equity. The group has undertaken an expansion cum modernization plan of around Rs 120 Cr in SPS to enhance the rolling capacity by 165000 MTPA which is likely to be operational by Q2FY23. The same will be funded through a mix of debt and equity in 1:1 ratio. The group is planning to undertake another debt funded capex plan of Rs 150 Cr in SIPL to enhance billet capacity by 181500 MTPA and ferro alloys by 13000 MTPA. Both upcoming and ongoing capex plans will help the group to improve operational efficiencies.

Healthy scale of operation

The group has healthy scale of operation as reflected from consolidated revenue of Rs 2727.20 Cr in FY21 as against Rs 1901 Cr in FY20. This improvement was driven by increase in sales volume apart from improvement in the average realization of both finished and intermediate products. Acuite believes the group is likely to witness revenue growth over the medium term backed by capacity addition along with buoyancy in the steel industry.

Comfortable financial risk profile

The financial risk profile of the group is marked by healthy net worth, modest gearing and comfortable debt protection metrics. The net worth of the group stood at Rs.790.37 Cr in FY2021 as compared to Rs. 647 Cr in FY2020 due to Rs 39.95 Cr of equity infusion apart from retention of profit. The gearing of the group stood at 1.65 times as on March 31, 2021 as compared to 1.77 times as on March 31, 2020. TOL/TNW stood at 2.02 times in FY21 as against 1.37 times in FY20. The total debt of Rs.1306.46 Cr in FY2021 consists of long-term debt of Rs.709.31 Cr, short-term loan of Rs. 466.41 Cr and unsecured loan of Rs 133.74 Cr. Interest coverage ratio (ICR) stood comfortable at 2.47 times in FY2021 as against 5.36 times in FY2020. The debt service coverage ratio (DSCR) also stood comfortable at 1.58 times in FY21 as against 1.00 times in FY2020. The net cash accruals against total debt (NCA/TD) stood at 0.11 times in FY21 as compared to 0.22 times in previous year. Acuite believes the financial risk profile of the group will remain comfortable over the medium term backed by steady accruals and steady profit margin even though they might witness some moderation in leverage indicators in FY23 due to the ongoing and upcoming capex plans.

Stable profitability margin

The group has reported steady profit margins both at the operating and net level historically. The operating margin of the group stood at 10.32 percent in FY21 as compared to 9.16 percent in FY20. The profit after tax (PAT) margins of the group stood at 3.20 percent in FY21 as against 10.66 percent in the preceding year. Reason for high PAT margin in FY20 because of Rs 167 Cr of exceptional income (effects of SPS resolution plan). The integrated operation has helped the group to maintain a comfortable profit margin. Acuite expects the profitability margin of the group will improve in medium term backed by improvement in operational efficiencies.

Weaknesses

Cyclical nature of the industry

The group performance remains vulnerable to cyclical nature in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Indian steel sector is highly competitive due to the presence of a large number of players. The operating margin of the group is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods.

Continuing debt funded capital expenditure

The Shakambhari group has continuously incurred capital expenditure in the past 2-3 years ended FY'2021. The capex has been largely to integrate operations within the group to ensure better synergies. The group has incurred capex of around Rs.470 Cr in the past 3 years enhancing their capacities in sponge iron, billets and captive power plant. The said capex was funded through an equitable mix of own funds and external borrowings. The group is planning to undertake debt funded capex plans of around Rs 270 Cr in next 2 years to further increase capacities which is expected to lead to slight moderation in leverage ratios. Acuite believes that any unplanned debt funded capex plan would be a key rating sensitivity factor.

Working capital intensive operations

The operations of group are working capital intensive as reflected in their Gross Current Asset (GCA) days of 155 days in FY21 as compared to 181 days in the previous year. The high GCA days are mainly on account of high inventory days which stood at 84 days in FY21 as against 102 days in FY20. Debtor days stood at 47 days in FY21 as against 50 days in FY20. Acuite expects the GCA days to hover around same levels over the medium term because of large inventory level.

Rating Sensitivity

- Timely completion of planned capital expenditure
- Sustainability in profitability margins
- Healthy revenue growth

Material Covenant

None

Liquidity Position: Adequate

The Shakambhari group has adequate liquidity reflected from low utilization of working capital limits of 76 percent during last 12 months ended August 2021. In addition, group has healthy net cash accrual of Rs.148 Cr during FY21 as against current maturity of 90 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 200-250 Cr as against current maturity of around Rs.100 Cr from FY22-FY24. Current ratio stood at 1.52 times during FY21 as against 1.53 times in FY20. The working capital requirement of the group stood high as reflected from GCA days of 155 days as on 31 March 2021. Acuite believes the liquidity position of the group will remain adequate, backed by steady accruals over the medium term.

Outlook: Stable

Acuite believes that Shakambhari group will benefit over the medium term from the promoters vast experience in the steel industry and the ongoing upturn in the steel cycle. The outlook may be revised to 'Positive' if Shakambhari group is able to strengthen the financial risk profile along with sustainability in the profitability margin. Conversely, the outlook may be revised to 'Negative' if the group witnessed a significant deterioration in financial risk profile or liquidity profile due to any significant time or cost overruns in their planned capital expenditure.

About the Rated Entity - Consolidated

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	2727.20	1901.72
PAT	Rs. Cr.	87.31	202.78
PAT Margin	(%)	3.20	10.66
Total Debt/Tangible Net Worth	Times	1.65	1.77
PBDIT/Interest	Times	2.47	5.36

About the Rated Entity - Standalone

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	898.16	685.48
PAT	Rs. Cr.	37.54	175.51
PAT Margin	(%)	4.18	25.60
Total Debt/Tangible Net Worth	Times	4.08	18.20
PBDIT/Interest	Times	3.34	9.84

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

None

Any other information

None

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>

Consolidated - <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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
12 August 2020	Proposed Cash Credit	Long Term	25	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	45	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	165	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB+/Stable (Upgraded)
Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB+/Stable (Upgraded)
Punjab National Bank	Term loan	September 2019	10.50	June 2024	153.00	ACUITE BBB+/Stable (Upgraded)

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About Acuité Ratings & Research:

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