Press Release

SPS Steels Rolling Mills Limited

September 02, 2022

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.00	-	ACUITE A2 | Reaffirmed
Bank Loan Ratings	223.90	ACUITE BBB+ | Stable | Reaffirmed	-
Bank Loan Ratings	387.02	ACUITE BBB+ | Stable | Assigned	-
Bank Loan Ratings	46.00	-	ACUITE A2 | Assigned
Total Outstanding Quantum (Rs. Cr)	672.92	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB+' (read as ACUITE Triple B plus)** and Short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 239.90 Cr bank facilities of SPS Steels Rolling Mills Limited (SPS). The outlook is **'Stable'**.

Acuité has assigned the long-term rating of **'ACUITE BBB+' (read as ACUITE Triple B plus)** and Short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 433 Cr bank facilities of SPS Steels Rolling Mills Limited (SPS). The outlook is **'Stable'**.

The rating continues to reflect the healthy business profile of the group marked by its long track record and established TMT steel brands in Eastern India. The group had registered strong operational performance during last two years because of rise in sale volume and average realization of steel products.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.The timely completion at the envisaged cost of the ongoing debt funded capital expenditure programmes in the group would remain a rating sensitivity factor.

About the Company

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 installed capacity of 165,000 MTPA for sponge iron, 198,000 MTPA for billet and 198,000 MTPA for rolled product.

About the Group

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, 499,000 MTPA for billet, 399,000 MTPA for rolled product, 55,500 MTPA for ferro alloy and 52 MW of captive power plant.

Eloquent Steel Pvt Ltd(ESPL) was acquired by Sharkambhari group in FY18 through auction from Official Liquidator of Honorable High Court, Kolkata. Currently the company is engaged in manufacturing of billet and ferro alloys at its manufacturing unit located in Asansol, West Bengal. The installed capacity for billet unit is 46200 MTPA and ferro alloys is 43,250 MTPA.

Bravo Sponge Iron Private Limited(BSPL) was incorporated in 1997 by Jamshedpur-based Bhalotia group. BSIPL's plant was shut down during April 2014 to May 2015 as the plant was making loss. In June 2015, Shakambari group took over the control of the company. The company has manufacturing unit in Purulia West Bengal with installed capacity of 76800 MTPA for billet, 120,000 MTPA of sponge iron and 850,000 MTPA of pellet unit.The company has a 10 MW of captive power plant.

Analytical Approach

Acuité has taken a consolidated view of Shakambhari Ispat & Power Limited, SPS Steel Rolling Mills Limited,Eloquent Steel Pvt Ltd and Bravo Sponge Iron Pvt Ltd as all the entities are in the same line of business, share common management and has significant operational linkage between them.The change in analytical approach is on account strengthening of operational linkages between SIPL, ESPL and BSPL. The group herein is referred to as Shakambhari Group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

Established presence in steel industry

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 3200 distributors. The group has two established brands 'Thermocon' and 'Elegant' which have a strong brand recall in West Bengal and its neighbouring states.The group caters to both domestic and overseas markets such as Nepal, Japan, South Korea among others.Acuité believes that the group will continue to benefit from their experienced management and their well-established brands.

Integrated operation with large operational capacity

The group has integrated operations with capacities to produce sponge iron, steel billets and long products across four the entities – SIPL, SPS BSPL and ESPL. The aggregate installed capacity of the Shakambhari Group is 705,000 MT of sponge iron, 820,000 MT of billet, 98750 MTPA of ferro alloys, 597,000 MT of rolled steel products and 62 MW of captive power plant. BSPL had installed 850,000 MT of pellet unit in FY22 to cater to the needs of SIPL and SPS.

Further in current fiscal year, BSPL will enhance its pellet capacity by 8,50,000 MT as second line is expected to be operational since October 2022. BSPL will also enhance captive power plant capacity to 23.9 MW from 10 MW and modernize the billet unit through debt led capex plan of Rs 180 Cr.The same is expected to be operational by March 2023.The group has undertaken another debt led capex plan in SPS of Rs 262 Cr toward the enhancement of exiting TMT and billet capacities to 375,000 MTPA each along with refurbishment of recently acquired unit in Purulia, West Bengal. The refurbishment and expansion projects in SPS are expected to complete by Q1FY24.The acquired unit will add 120,000 MTPA sponge iron capacity, 15,845 MTPA of ferro alloy capacity and 10 MW captive power plant. The existing capacities of SIPL will be enhanced through Rs 188 Cr of debt funded capex plan. The mentioned capex plan in SIPL will add 261,000 MTPA of TMT, 161,000 MTPA of billet and 32 MW of captive power plant. ESPL will also add 120,000 MTPA of rolling mill capacity through a capex plan of Rs 90 Cr.The group's operational capacities and efficiencies are expected to improve significantly in medium term because of ongoing capex plans.

Sustained revenue growth

The group had registered healthy revenue growth as reflected from its revenue of Rs 4861 Cr in FY22(Provisional) as against 2969 Cr in FY21 and Rs 2223 Cr in FY20. The growth is driven by substantial rise in average realization of TMT bar and ferro alloy because of strong demand from end user industries such as construction, real estate etc. In addition, the group had enhanced its existing capacities. The improvement in realization is partially driven by hike in input cost.The scale of operation expected to improve over the medium term backed by capacity addition.

Comfortable financial risk profile

The financial risk profile of the group is marked by strong net worth, modest gearing and comfortable debt protection metrics. The net worth of the group stood at Rs.1511 Cr in FY2022(Provisional) as compared to Rs.1129 Cr in FY2021 due to Rs 32.18 Cr of equity and retention of profits. The gearing of the group stood at 1.54 times as on March 31, 2022(Provisional) as compared to 1.45 times as on March 31, 2021. TOL/TNW stood at 1.96 times in FY22(Provisional) as against 1.81 times in FY21.The group has high reliance on external debt because of continuous debt funded capex plans. Interest coverage ratio (ICR) stood comfortable at 4.67 times in FY2022(Provisional) as against 2.51 times in FY2021.The debt service coverage ratio (DSCR) also stood comfortable at 2.19 times in FY22(Provisional) as against 1.54 times in FY2021.The net cash accruals against total debt (NCA/TD) stood at 0.18 times in FY22(Provisional) as compared to 0.11 times in previous year. Acuité 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 medium term due to the ongoing capex plans.

Improvement in profitability margin

The group has reported healthy profit margins both at the operating and net level historically. The operating margin of the group stood at 13.54 percent in FY22(Provisional) as compared to 11.66 percent in FY21. The profit after tax (PAT) margins of the group stood at 6.88 percent in FY22 as against 3.69 percent in the preceding year.) The improvement is driven by exceptional rise in realization of ferro alloys because of high demand from both domestic and overseas markets. However, the profit margin is likely to witness moderation during FY23 due to inventory losses in Q1HFY23 because of decline in realization of steel products.Acuite expects the profitability margin of the group is expected to remain at comfortable level over the medium term backed by integrated operation.

Weaknesses

Cyclical nature of the industry

The group performance remains vulnerable to cyclicality 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.

Working capital intensive operations

The operations of group are working capital intensive as reflected in their Gross Current Asset (GCA) days of 168 days in FY22(Provisional) as compared to 177 days in the previous year. The high GCA days are mainly on account of high inventory days which stood at 111 days in FY22(Provisional) as against 99 days in FY21. Debtor days stood at 26 days in FY22(Provisional) as against 46 days in FY21.Acuité expects the GCA days to hover around same levels over the medium term because of large inventory level.

High financial obligations

The group had witnessed substantial rise in debt level because of continuous capex plan. Moreover, the group has undertaken massive expansion capex plans of around Rs 721 Cr in all four entities which will be funded through a mix of debt and equity in 1.6:1 ratio. Hence ongoing debt funded capex plans and enhancement in working capital limits will led further rise in financial obligations.However, the group is able to generate significant amount of accruals which helps to meet its obligation.

ESG Factors Relevant for Rating

Manufacture of metals has a substantial environmental impact. The production of basic metals is extremely power-intensive. Steel is still produced with blast furnaces, releasing large amounts of carbon dioxide, nitrogen oxide, and particulate matters into the air. On the social front, occupation and workforce health & safety management are of primary importance to this industry given the dangerous nature of operations. Furthermore, factors such as ethical business practices, management compensation and board administration hold primary importance within this industry.

Rating Sensitivities

- Timely completion of planned capital expenditure
- Improvement in gearing ratios backed by reduction in debt level along while maintaining comfortable profit margin.

Material covenants

Not Applicable

Liquidity profile: Adequate

The Shakambhari group has adequate liquidity reflected from low utilization of working capital limits of 60 percent during last 12 months ended July 2022. In addition, group has healthy net cash accrual of Rs 421 Cr during FY22(Provisional) as against current maturity of 124 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 300-400 Cr as against current maturity of around Rs.165 Cr from FY23-FY24. Current ratio stood at 1.46 times during FY22(Provisional) as against 1.56 times in FY21.The working capital requirement of the group stood high as reflected from GCA days of 168 days as on 31 March 2022.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 comfortable financial risk profile. 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 position due to any significant time or cost overruns in their planned or unplanned capital expenditure.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	4861.28	2969.89
PAT	Rs. Cr.	334.45	109.50
PAT Margin	(%)	6.88	3.69
Total Debt/Tangible Net Worth	Times	1.54	1.45
PBDIT/Interest	Times	4.67	2.51

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Oct 2021	Proposed Cash Credit	Long Term	12.00	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	153.00	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB- | Stable)
	Cash Credit	Long Term	70.00	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB- | Stable)
12 Aug 2020	Proposed Cash Credit	Long Term	25.00	ACUITE BBB- | Stable (Assigned)
	Proposed Cash Credit	Long Term	45.00	ACUITE BBB- | Stable (Assigned)
	Proposed Term Loan	Long Term	165.00	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 | Assigned
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 | Assigned
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2 | Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB+ | Stable | Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+ | Stable | Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.00	ACUITE BBB+ | Stable | Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB+ | Stable | Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+ | Stable | Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A2 | Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A2 | Assigned
Punjab National Bank	Not Applicable	Term Loan	30-09-2019	10.5	30-06-2024	133.90	ACUITE BBB+ | Stable | Reaffirmed
State Bank of India	Not Applicable	Term Loan	30-06-2024	8.20	30-06-2031	25.00	ACUITE BBB+ | Stable | Assigned
State Bank of India	Not Applicable	Term Loan	30-06-2024	8.20	30-06-2031	75.00	ACUITE BBB+ | Stable | Assigned
Indian Bank	Not Applicable	Term Loan	30-06-2023	8.30	30-03-2031	30.00	ACUITE BBB+ | Stable | Assigned
Punjab National	Not	Term Loan	28-06-2024	8.30	30-03-2032	30.00	ACUITE BBB+ |

Bank	Applicable						Stable | Assigned
Punjab National Bank	Not Applicable	Term Loan	29-06-2024	8.30	30-06-2031	25.00	ACUITE BBB+ | Stable | Assigned
Punjab National Bank	Not Applicable	Term Loan	28-06-2024	8.30	30-03-2032	40.00	ACUITE BBB+ | Stable | Assigned
Punjab National Bank	Not Applicable	Term Loan	28-06-2022	8.90	28-06-2028	42.44	ACUITE BBB+ | Stable | Assigned
Punjab National Bank	Not Applicable	Term Loan	30-07-2021	8.30	30-07-2026	22.58	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.