

Press Release

SPS Steels Rolling Mills Limited

March 02, 2023



Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|-------------------------------------------|---------------------|-----------------------------------|------------------------|
| Bank Loan Ratings | 50.00 | ACUITE BBB+ Stable Assigned | - |
| Bank Loan Ratings | 600.92 | ACUITE BBB+ Stable Reaffirmed | - |
| Bank Loan Ratings | 72.00 | - | ACUITE A2 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 722.92 | - | - |

Rating Rationale

Acuite 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. 672.92 Cr bank facilities, and assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) on the Rs. 50 Cr bank facilities of SPS Steels Rolling Mills Limited (SPS). The outlook remains '**Stable**'.

Rating Rationale

The rating takes into cognizance the strong business risk profile of the group marked by sharp increase in the operating income and healthy profitability arising from better realizations. The rating also factors in its revenue diversity across the steel sector and the comfortable financial risk profile of the company characterized by robust network and comfortable debt coverage indicators. These strengths are, however, partly offset by the working capital intensive nature of operations of the group, cyclical nature of the steel industry and the volatility in commodity prices.

About the Company

SPS Steels 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, 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 an 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 Shakambhari 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 46,200 MTPA and ferro alloys is 43,250 MTPA.

Bravo Sponge Iron Private Limited(BSPL) was incorporated in 1997 by Jamshedpur-based Bhalotia group. BSPL's plant was shut down during April 2014 to May 2015 as the plant was incurring losses. In June 2015, Shakambhari group took over the control of the company. The company has a 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 group herein is referred to as Shakambhari Group.

Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The Shakambhari group has a long track record of over two decades in the iron and steel industry. Shakambhari Ispat & Power Limited was incorporated in October 2001 in the name of Ma Chhinnamastika Steel & Power Pvt. Ltd. The previous 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. Further, in FY2020, the group had acquired SPS Rolling Mills Limited 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 long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. Currently the group is headed by Mr. Deepak Agrawal who has an experience of more than two decades in the iron and steel industry. Acuité derives comfort from the long experience of the promoters.

- **Strong business risk profile**

The strong business risk profile of the group is supported by the integrated nature of operations of the group; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. The diversity in revenue streams of the group also augurs well. 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.

Also, the group had registered healthy revenue growth as reflected from its revenue of Rs 4086.10 Cr in FY2022 as against Rs. 2685.19 Cr in FY2021 and Rs. 1974.46 Cr in FY2020. 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 to this, the group had enhanced its existing capacities. The scale of operation is expected to improve

over the medium term backed by capacity addition.

Moreover, the group has a locational advantage as the plants are located in the industrial area of West Bengal, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

The group has reported healthy profit margins both at the operating and net level historically. The operating margin of the group stood at 16.11 per cent in FY22 as compared to 12.90 per cent in FY21. The profit after tax (PAT) margins of the group stood at 8.19 per cent in FY22 as against 4.08 per cent 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. Nevertheless, Acuité expects the profitability margin of the group is expected to remain at comfortable level over the medium term backed by integrated operation.

- **Healthy financial risk profile**

The group's healthy financial risk profile is marked by strong network, moderate gearing and healthy debt protection metrics. The tangible net worth of the group increased to Rs.1511.72 Cr as on March 31, 2022 from Rs.1129.48 Cr as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans to the tune of Rs.0.28 Cr as on March 31, 2022 as part of network as these loans are subordinated to bank debt. Gearing of the group stood moderate at 1.54 times as on March 31, 2022 as against 1.45 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.96 times as on March 31, 2022 as against 1.81 times as on March 31, 2021. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio at 4.67 times as on March 31, 2022 and Debt Service Coverage Ratio at 2.19 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.18 times as on March 31, 2022.

Acuité believes that going forward the financial risk profile of the group will remain healthy even though they might witness some moderation in leverage indicators in medium term due to the ongoing capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 200 days in 31st March 2022 as compared to 196 days in 31st March 2021. The high level of GCA days is on account of high inventory levels during the same period. The inventory holding stood at 136 days in 31st March 2022 as compared to 111 days as on 31st March 2021. However, the debtor period stood comfortable at 31 days on 31st March 2022 as compared to 51 days on 31st March 2021. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and high inventory levels over the medium term.

- **Intense competition and inherent cyclical nature of the steel industry**

The downstream steel industry remains heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

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

- Sustainability in revenue growth and improvement in margins
- Improvement in capital structure

Material covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.421.38 Cr as on March 31, 2022 as against long term debt repayment of Rs.115.02 Cr over the same period. The fund based limit remains utilised at 88 per cent over the nine months ended December, 2022. The current ratio stood comfortable at 1.46 times as on March 31, 2022 as compared to 1.56 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.9.23 Cr as on March 31, 2022 as compared to Rs.12.53 Cr as on March 31, 2021. However, the working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 200 days in 31st March 2022 as compared to 196 days in 31st March 2021. Acuite believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that Shakambhari group will benefit over the medium term from the sound business risk profile 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 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 4086.10 | 2685.19 |
| PAT | Rs. Cr. | 334.45 | 109.50 |
| PAT Margin | (%) | 8.19 | 4.08 |
| 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

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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 |
|-------------|--------------------------------|------------|-----------------|-----------------------------------------------------------|
| 02 Sep 2022 | Bank Guarantee | Short Term | 5.00 | ACUITE A2 (Assigned) |
| | Term Loan | Long Term | 30.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 25.00 | ACUITE BBB+ Stable (Assigned) |
| | Letter of Credit | Short Term | 16.00 | ACUITE A2 (Reaffirmed) |
| | Cash Credit | Long Term | 20.00 | ACUITE BBB+ Stable (Reaffirmed) |
| | Cash Credit | Long Term | 20.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 30.00 | ACUITE BBB+ Stable (Assigned) |
| | Cash Credit | Long Term | 30.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 22.58 | ACUITE BBB+ Stable (Assigned) |
| | Bank Guarantee | Short Term | 5.00 | ACUITE A2 (Assigned) |
| | Term Loan | Long Term | 40.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 75.00 | ACUITE BBB+ Stable (Assigned) |
| | Cash Credit | Long Term | 70.00 | ACUITE BBB+ Stable (Reaffirmed) |
| | Cash Credit | Long Term | 47.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 25.00 | ACUITE BBB+ Stable (Assigned) |
| | Term Loan | Long Term | 133.90 | ACUITE BBB+ Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 20.00 | ACUITE A2 (Assigned) |
| | Letter of Credit | Short Term | 16.00 | ACUITE A2 (Assigned) |
| | Term Loan | Long Term | 42.44 | ACUITE BBB+ Stable (Assigned) |
| 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 | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|--------------------------------------------|
| Canara Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 5.00 | ACUITE A2 Reaffirmed |
| Indian Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE A2 Reaffirmed |
| Punjab National Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 25.00 | ACUITE A2 Reaffirmed |
| Punjab National Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 90.00 | ACUITE BBB+ Stable Reaffirmed |
| Indian Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 30.00 | ACUITE BBB+ Stable Reaffirmed |
| Canara Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 20.00 | ACUITE BBB+ Stable Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 47.00 | ACUITE BBB+ Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | Simple | 62.16 | ACUITE BBB+ Stable Reaffirmed |
| State Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 32.00 | ACUITE A2 Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 50.00 | ACUITE BBB+ Stable Assigned |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 14.14 | ACUITE BBB+ Stable Reaffirmed |
| Punjab National Bank | Not Applicable | Term Loan | 30 Sep 2019 | 10.5 | 30 Jun 2024 | Simple | 207.62 | ACUITE BBB+ Stable Reaffirmed |
| State Bank of India | Not Applicable | Term Loan | 30 Jun 2024 | 8.20 | 30 Jun 2031 | Simple | 25.00 | ACUITE BBB+ Stable Reaffirmed |
| State Bank of India | Not Applicable | Term Loan | 30 Jun 2024 | 8.20 | 30 Jun 2031 | Simple | 75.00 | ACUITE BBB+ Stable Reaffirmed |

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|-------------|----------------|-----------|-------------|------|-------------|--------|-------|--------------------------------------------|
| Indian Bank | Not Applicable | Term Loan | 30 Jun 2023 | 8.30 | 30 Mar 2031 | Simple | 30.00 | ACUITE BBB+ Stable Reaffirmed |
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Contacts

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About Acuité Ratings & Research

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