



Press Release
SPS Steels Rolling Mills Limited
March 18, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	650.92	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. 722.92 Cr. bank facilities of SPS Steels Rolling Mills Private Limited (SPS). The outlook remains '**Stable**'.

Rating Rationale

The rating takes into cognizance the strong business risk profile of the group marked by increase in the operating income due to partial stabilization of operations in newer facilities. The profitability reduced marginally in FY2023 due to reduction in finished goods prices. However, the group believes that with the augmentation of captive power plant, the group would be able to enjoy the benefit of better cost efficiencies and integrated nature of operations. 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. Acuite further notes that the stabilization of the ongoing projects of the group would be a key rating monitorable.

About Company

SPS Steels Rolling Mills Limited (SPS) was established in 1981 by Mr. Bipin Vohra and has its registered office located in Kolkata, West Bengal. 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 180,000 MTPA for sponge iron, 330,000 MTPA for billet, 375,000 MTPA for rolled product, 15,845 MTPA for ferro alloys and 10MW for captive power plant. Directors of the company are Mr. Deepak Kumar Agarwal, Mr. Ashok Kumar Sharma, Ms. Priyanka Goenka, Mr. Sanjeev Kumar Sachan, Mr. Pranab Sarkar and Mr. Vikrant Ranjan.

About the Group

Shakambhari Ispat & Power Limited

Kolkata based, Shakambhari Ispat & Power Limited (SIPL) was incorporated in 2001 as Ma Chhinnamastika Steel & Power Private Limited. 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 in Purulia, West Bengal. The company has installed capacity of 525,000 MTPA for sponge iron, 660,000 MTPA for billet, 660,000 MTPA for rolled product, 111,000 MTPA for ferro alloy and 83 MW of captive power plant. Current directors are Mr. Ramabatar Agarwal, Mr. Ranjit Banerjee, Mr. Ashok Kumar Sharma, Mr. Deepak Kumar Agarwal, Ms. Priyanka Goenka and Mr. Vikrant Ranjan.

Eloquent Steel Private Limited (ESPL)

Eloquent Steel Private Limited (ESPL) was incorporated in 2012 and the company was engaged in trading of goods. However, in November 2017, the company was taken over by Mr. Deepak Agarwal. ESPL acquired existing plants in Q3FY18, through auction from Official Liquidator of Honorable High Court, Kolkata, and through bidding in auction notice from bank. Both the plants consisted of ferroalloy manufacturing facilities as well as steel melting shop. The production has started in November 2018. The plant capacity is 43,250 MTPA of Silico Manganese, as well as 76,500 MTPA of billets is being manufactured. It has its registered office in Kolkata. Directors of the company are Mr. Ramabatar Agarwal, Mr. Deepak Kumar Agarwal and Ms. Swati Agarwala.

Bravo Sponge Iron Private Limited (BSIPL)

Bravo Sponge Iron Private Limited (BSIPL: erstwhile known as Piyushripcon Finance Private Limited) 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, Kolkata-based Shakambhari Group took over the control of the company. Currently, BSIPL has installed capacity of sponge iron of 223,500 MTPA, billet of 76,800 MTPA, 1,700,000 MTPA for pellets and 23.9 MW of captive power plant at its plant located at Rukni, Purulia in West Bengal. Present directors are Mr. Deepak Agarwal, Ms. Swati Agarwala, Mr. Sanjeev Kumar Sachan and Mr. Ramabatar Agarwal.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

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 928,500 MT of sponge iron, 1,143,600 MT of billet, 1,700,000 MTPA of pellets, 170,095 MTPA of ferro alloys, 1,035,000 MT of rolled steel products and 117 MW of captive power plant.

Also, the group had registered healthy revenue growth as reflected from its revenue of Rs 5449.92 Cr. in FY2023 as against Rs. 4086.10 Cr. in FY2022 and Rs. 2685.19 Cr. in FY2021. 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 10.74 per cent in FY23 as compared to 16.11 per cent in FY22. This dip in margins was primarily due to correction of high prices of finished steel products in FY23. The profit after tax (PAT) margins of the group stood at 5.21 per cent in FY23 as against 8.19 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. Nevertheless, Acuite expects the profitability margin of the group is expected to remain at comfortable level over the medium term backed by integrated operation and benefits expected to accrue from the stabilisation of operations in the new capex undertaken in last 2 years.

Healthy financial risk profile

The group's financial risk profile is marked by strong networth, moderate gearing and healthy debt protection metrics. The tangible net worth of the group increased to Rs.2053.04 Cr. as on March 31, 2023 from Rs.1511.45 Cr. as on March 31, 2022 due to accretion of reserves and equity infusion for capex. Gearing of the group stood moderate at 1.08 times as on March 31, 2023 as against 1.45 times as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.45 times as on March 31, 2023 as against 1.96 times as on March 31, 2022. The healthy debt protection metrics of the group moderated with Interest Coverage Ratio at 3.28 times as on March 31, 2023 and Debt Service Coverage Ratio at 1.85 times as on March 31, 2023. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.18 times as on March 31, 2023. Acuite believes that going forward the financial risk profile of the group will remain healthy in the absence of any further major debt funded 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 161 days in 31st March 2023 as compared to 200 days in 31st March 2022. The high level of GCA days is on account of high inventory levels during the same period. The inventory holding stood at 103 days in 31st March 2023 as compared to 136 days as on 31st March 2021. However, the debtor period stood comfortable at 26 days in 31st March 2023 as compared to 32 days in 31st March 2022. Acuite 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. Acuite believes that the group remains exposed to such cyclicity and competition in the steel industry is reflected from volatility to its operating margins.

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

- Improvement in revenue growth and in margins
- Improvement in debt protection metrics
- Any larger than expected debt laden capex
- Elongation of working capital cycle

Liquidity Position Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.391.43 Cr. as on March 31, 2023 as against long term debt repayment of Rs.123.90 Cr. over the same period. The fund based limit remains utilised at 63.3 per cent over the six months ended December, 2023. The current ratio stood comfortable at 1.49 times as on March 31, 2023 as compared to 1.48 times as on March 31, 2022. The cash and bank balances of the group stood at Rs.38.50 Cr. as on March 31, 2023 as compared to Rs.9.23 Cr. as on March 31, 2022. However, the working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 161 days in 31st March 2023.. The group does not have any major debt funded capex plans as it wants to stabilize its existing enhanced capacities. Acuite believes that going forward the group will maintain adequate liquidity position due to steady accruals, absence of debt laden capex and moderate current ratio albeit a working capital nature of operations.

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 elongation of working capital cycle or unplanned capital expenditure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	5449.92	4086.10
PAT	Rs. Cr.	283.80	334.45
PAT Margin	(%)	5.21	8.19
Total Debt/Tangible Net Worth	Times	1.08	1.54
PBDIT/Interest	Times	3.28	4.67

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

Not Applicable

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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 Mar 2023	Bank Guarantee (BLR)	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	25.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	47.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	90.00	ACUITE BBB+ Stable (Reaffirmed)
	Covid Emergency Line.	Long Term	62.16	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	32.00	ACUITE A2 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	14.14	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	50.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	75.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	207.62	ACUITE BBB+ Stable (Reaffirmed)
02 Sep 2022	Bank Guarantee (BLR)	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	70.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	47.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	133.90	ACUITE BBB+ Stable (Reaffirmed)
		Long		

	Term Loan	Term	25.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	75.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	30.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	40.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	42.44	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	22.58	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	30.00	ACUITE BBB+ Stable (Assigned)
05 Oct 2021	Cash Credit	Long Term	70.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable)
	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)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A2 Reaffirmed
Indian Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A2 Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A2 Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	90.00	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	47.00	ACUITE BBB+ Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	31 Jan 2028	Simple	62.16	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	32.00	ACUITE A2 Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	64.14	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	30 Jun 2024	Not avl. / Not appl.	30 Jun 2031	Simple	25.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	30 Jun 2024	Not avl. / Not appl.	30 Jun 2031	Simple	75.00	ACUITE BBB+ Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	30 Sep 2019	Not avl. / Not appl.	30 Jun 2024	Simple	207.62	ACUITE BBB+ Stable Reaffirmed

Indian Bank	Not avl. / Not appl.	Term Loan	30 Jun 2023	Not avl. / Not appl.	30 Mar 2031	Simple	30.00	ACUITE BBB+ Stable Reaffirmed
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***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

1. Shakamabari Ispat & Power Ltd (Flagship concern)
2. SPS Steels Rolling Mills Limited (Sister Concern)
3. Eloquent Steel Private Limited (Sister Concern)
4. Bravo Sponge Iron Private Limited (Sister Concern)

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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.

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