Rating Advisory

December 22, 2022 | Mumbai

Shakambhari Ispat and Power Limited

Update as on December 22, 2022

This rating advisory is provided in relation to the rating of Shakambhari Ispat and Power Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Substantial increase in scale of operations and cash accrual supported by better product diversity
- Improvement in financial risk profile, with gearing reducing below 1 time and interest coverage over 4-4.5times on sustained basis

Downward factors

- Higher-than-expected debt, resulting in interest coverage and NCATD ratios below 2.5 times and below 10%, respectively
- Elongation in working capital or delay in getting working capital limits resulting in lower cushion in bank limits for instance bank limit utilisation rising above 90%

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Shakambhari Ispat and Power Limited (SIPL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If SIPL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Group

SIPL (erstwhile Maa Chhinnamastika Steel & Power Pvt Ltd) was incorporated in 2001. Its plant was shut down in August 2010 as it was making loss. In December 2010, the Shakambari Group of Industries took control of the company. The group is based in Kolkata and has established position in Eastern market.

In 2015, BSIPL was acquired from the Bhalotia group in Jamshedpur (formerly, Bhalotia Bravo Sponge Iron Pvt Ltd). Incorporated in 1997, the entity manufactured sponge iron. It was taken over by the Bhalotia group in 2002. In June 2015, the unit was shut down by the Bhalotia group and was taken over by Mr Deepak Agarwal by paying the distress sale value of around Rs 25 crore by way of purchase of share capital. In fiscal 2018, the group purchased ESPL, which was incorporated in

2012, with an objective of setting up a submerged arc furnace for production of ferro alloys and induction furnace for production of billets. However, till 2017, the company was not having any activity except trading of iron and steel items. In November 2017, ESPL was taken over by Mr Deepak Agarwal and Ms Swati Agarwal by transfer of shares. Through ESPL, two loss making companies (Hira Concast Ltd and Impex Steel Ltd) were acquired through option bidding for setting up sub-merged electric arc furnaces to produce ferro alloys. In fiscal 2020, the promoters acquired SPS, which has an established brand, Elegant, under rolling mill.

Overall, the group has installed capacities of 7.25 lakh million tonne (MT) of sponge iron, 6.34 lakh MT of billets, 5.64 lakh MT of rolling mill and 0.75 lakh MT of silico manganese. It also has a captive power plant of 62 MW (28 MW waste heat recovery plant and 34 MW coal-based thermal power plant).

As on November 30, 2021, revenue of the group including interparty sales was Rs 3,537 crore with profit after tax (PAT) of Rs 219 crore.

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Rating Rationale

January 05, 2022 | Mumbai

Shakambhari Ispat and Power Limited

Ratings upgraded to 'CRISIL BBB+ / Stable , CCR BBB+ / Stable / CRISIL A2 '; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.1500 Crore (Enhanced from Rs.1200 Crore)**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB / Stable')**
Short Term Rating	**CRISIL A2 (Upgraded from 'CRISIL A3+ ')**

Corporate Credit Rating	**CCR BBB+/Stable (Upgraded from 'CCR BBB / Stable')**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded the corporate credit rating of Shakambhari Ispat and Power Ltd (SIPL; a part of the Shakambhari Group of Industries) to **'CCR BBB+/Stable'** from 'CCR BBB/Stable'. Further, the ratings on the bank facilities of SIPL have been upgraded to **'CRISIL BBB+/Stable/CRISIL A2'** from 'CRISIL BBB/Stable/CRISIL A3+'.

The upgrade reflects a belief that scale, and financial risk profile of the group will continue to improve in fiscal 2022 as well. Revenue should grow by 35-40% on-year in fiscal 2022, driven by healthy volume growth owing to addition of capacities during the year and better realisation. Revenue grew by 33% to around Rs 2,687 crore in fiscal 2021, as compared to Rs 2,014 crore in fiscal 2020. Scale may rise even further, with the addition of the pellet plant in fiscal 2022. The plant has started operations from end of December 2021. This should generate revenue of Rs 150-200 crore in the fourth quarter of fiscal 2022 and above Rs 1,000 crore in fiscal 2023.

The ratings also factor in the improving financial risk profile of the group. The operating margin is likely to rise to 13.5-14.0% in fiscal 2022 from 13.0% in fiscal 2021; it may further increase in fiscal 2023 as the effects of pellet plant takes into effect.

Financial risk profile though improving, remains average, as a result of capital expenditure (capex) undertaken over the last 3-4 years and an acquisition made in fiscal 2020. For fiscal 2021, interest coverage and net cash accrual to total debt (NCATD) ratios were 2.5 times and 12.0%, respectively; gearing was 1.2 times as on March 31, 2021. Cash accrual was healthy at Rs 184 crore in fiscal 2021 and is projected at around Rs 300 crore in fiscal 2022. Interest coverage and NCATD ratios are expected at 3.3-3.7 times and 16-20%, respectively, in fiscal 2022. Liquidity improved drastically with enhancement in the working capital limit (by around Rs 260 crore). Financial risk profile is likely to improve further over the next 2-3 years, supported by strong cash accrual of Rs 300-500 crore and improving debt protection metrics as profitability increases. The promoters are likely to continue extending timely, need-based unsecured loans to aid the operations.

The ratings also consider healthy business risk profile, marked by strong market position, improving scale of business and operating efficiency, supported by integrated nature of operations and longstanding experience of promoters in the steel sector. Revenue improved at a compound annual growth rate (CAGR) of more than 35% for the five fiscals through 2021, driven by large capacity additions and inorganic growth. Operating margin also rose over the years with forward integration, increasing share of value-added products and operating leverage benefits from enhanced capacities.

The group benefits from diversification across product segments, presence of strong brand and diversified customers. It has established position in East India. With acquisition of SPS Steels Rolling Mills Ltd (SPS) in April 2019, the group attained the brand, Elegant, for rolling mills capacity, which has strong presence in Northern and Western parts of India. The credit risk profile is further supported by extensive experience of the promoters (of over two decades) and track record of support. These strengths are partially offset by vulnerability to fluctuations in price of raw material and finished goods, exposure to inherent cyclicality as well as competitive and capital-intensive nature of the steel industry.

Analytical Approach

To arrive at its ratings, CRISIL Ratings has combined the business and financial risk profiles of SIPL with SPS, Bravo Sponge Iron Pvt Ltd (BSIPL) and Eloquent Steel Pvt Ltd (ESPL). That is because these entities, collectively referred to as Shakambhari Group of Industries, are in the same business and under a common management. These entities also have significant operational and financial linkages. Further, loans extended by the promoters have been treated as 75% equity and 25% debt.

Unsecured loans (Rs 185 crore as on December 31, 2021 extended by the promoters are interest free and are expected to remain in the business over the medium term.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

Established market position and improving operating efficiency

The group has an established position in the steel and steel intermediates industry in Eastern India and are improving their presence in other parts through inorganic growth. It has also increased its foothold in export markets, with more than 10% revenue derived from exports in fiscal 2021. Revenue is expected to reach Rs 3,700-4,000 crore (on consolidated basis) in fiscal 2022 from Rs 773 crore in fiscal 2016, at a CAGR of over 35%, backed by enhanced geographic reach and premium brand through acquisition of SPS, and other such acquisitions and through internal capacity additions over the years.

The promoters are associated with the steel industry for over two decades and have forward as well as backward integrated operations. Sales volume should improve to around 10.5 lakh million tonne per annum (MTPA) in fiscal 2022 from 2.96 lakh MTPA in fiscal 2017. Revenue growth will be supported over medium term, by the recent capacity expansion in fiscals 2021 and 2022. Product portfolio is well-diversified, with multiple points of sale across the value chain, including sponge iron, billets, thermo-mechanically treated bars and ferro alloys. The clientele is also fairly diversified with no single customer contributing more than 7% to total revenue.

The group has taken various measures to improve efficiency and reduce cost across entities. Operating margin is expected to improve to over 13.0% in fiscal 2022 from 4.8% in fiscal 2016. The inorganic route of growth has further supported in improving scale and profitability at a fast pace. Further, with capex done in fiscal 2022 under BSIPL, the group has backward integrating into pellet, thereby further boosting the margin. Overall operating profitability is expected at 12-15% over the medium term.

Longstanding experience of promoters

The promoters have extensive experience of over two decades in the business. Under their guidance, the group diversified into various product segments, leading to integrated operations. The promoters have also shown competence in the business by turning around operations of stressed assets. In fiscal 2020, turnaround of operations of SPS, which was making losses until fiscal 2019, is attributed to the promoter’s experience - both in improving efficiency and cost reduction.

Improving, though average, financial risk profile

Debt protection metrics remained moderate, as a result of capex undertaken over the last 3-4 years and acquisition made recently. The group has undertaken capex of more than Rs 1,000 crore in the last 3-4 years, which was funded through a mix of external debt and funds extended by the promoters. Interest coverage and NCATD ratios were 2.50 times and 0.12 time, respectively, in fiscal 2021. Gearing was 1.20 times as on March 31, 2021, while debt/EBITDA (earnings before interest, taxes, depreciation, and amortisation) remained at 4.4 times. With improved profitability in fiscal 2022, cash accrual is expected to increase to more than Rs 300 crore from Rs 184 crore in fiscal 2021. Thus, interest coverage and NCATD ratios are projected at about 3.3 times and 16.0%, respectively, the ratios are expected at around 4.0 times and 20.0% over the medium term. Capex of around Rs 900 crore is to be incurred over fiscals 2022 and 2023, which will be funded through a mix of debt, and cash accrual. Further, the promoters are expected to continue extending timely, need-based funds to support financial flexibility, flexibility.

Weaknesses

Vulnerability to fluctuations in prices of raw material and finished goods

Operating margin is vulnerable to fluctuations in the cost of inputs (iron ore and coal) as well as realisation from finished goods. Prices and supply of the main raw material, iron ore, directly impacts the realisations of finished goods. Any significant change in the demand-and-pricing scenario, resulting in the operating margin moderating below 9% on a sustained basis, will remain a key monitorable.

Exposure to inherent cyclicality in, and competitive & capital-intensive nature of, steel sector

The group's performance remains vulnerable to cyclicality in the steel sector, given the close linkage between the demand for steel products and the domestic and global economy. The end-user segments such as real estate, civil construction and engineering also display cyclicality. While there has been a significant push by the government on steel-intensive sectors such as railways and infrastructure, any sustained downturn in demand will adversely impact performance of steel companies.

The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies such as Tata Steel Ltd, JSW Steel Ltd, Jindal Steel and Power Ltd ('CRISIL A-/Stable/CRISIL A2+'). Also, steel imports from other countries, mainly China, add to the competition. Additionally, the domestic steel sector is fairly capital intensive. To maintain/improve market share, the industry participants need to routinely carry out the capacity expansion and debottlenecking activities. However, SIPL has just completed a large capacity expansion, hence no sizeable capex is likely over the medium term.

Liquidity: Adequate
Cash accrual is projected at Rs 300-400 crore per annum over the medium term, sufficient to meet the yearly debt obligation of around Rs 100-150 crore for fiscals 2022 and 2023. The company is expected to incur capex of around Rs 900 crore over fiscals 2022 and 2023, which will be funded through a mix of debt, funds by the promoters and cash accrual. The working capital limit has been enhanced by around Rs 260 crore, which will help meet short-term funding needs. The promoters are expected to continue extending timely, need-based funds to support financial flexibility.

Outlook Stable
The Shakambhari Group of Industries will continue to benefit from integrated nature of operations, improving efficiencies, extensive experience of promoters and expected improvement in the financial risk profile.

Rating Sensitivity factors
Upward factors
- Substantial increase in scale of operations and cash accrual supported by better product diversity
- Improvement in financial risk profile, with gearing reducing below 1 time and interest coverage over 4-4.5times on sustained basis

Downward factors
- Higher-than-expected debt, resulting in interest coverage and NCATD ratios below 2.5 times and below 10%, respectively
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About the Group
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As on November 30, 2021, revenue of the group including interparty sales was Rs 3,537 crore with profit after tax (PAT) of Rs 219 crore.

Key financial indicators (Consolidated)

Particulars	Unit	2021	2020
Revenue	Rs crore	2687	2014
PAT*	Rs crore	110	213
PAT margin*	%	4.1	10.6
Adjusted debt/adjusted networth	Times	1.20	1.28
Interest coverage	Times	2.52	2.65

**Fiscal 2020 PAT includes the non-cash income of Rs 167.67 crore in SPS, which pertains to transfer of net of trade receivables and payables outstanding prior to take over and were not admitted by resolution professional.*

SIPL (standalone)

Particulars	Unit	2021	2020
Revenue	Rs crore	1834	1220

PAT	Rs crore	50	27
PAT margin	%	2.7	2.2
Adjusted debt/adjusted networth	Times	1.23	1.48
Interest coverage	Times	2.26	3.04

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Term Loan	NA	NA	Mar-2030	595.17	NA	CRISIL BBB+/Stable
NA	Fund-Based Facilities	NA	NA	NA	436	NA	CRISIL BBB+/Stable
NA	Non-Fund Based Limit	NA	NA	NA	205	NA	CRISIL A2
NA	Working Capital Facility	NA	NA	NA	8.55	NA	CRISIL BBB+/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	89	NA	CRISIL BBB+/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	70	NA	CRISIL A2
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	96.28	NA	CRISIL BBB+/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
SPS	Full consolidation	Business and financial linkages
BSIPL	Full consolidation	Business and financial linkages
SIPL	Full consolidation	Business and financial linkages
ESPL	Full consolidation	Business and financial linkages

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1225.0	CRISIL BBB+/Stable		--	05-04-21	CRISIL BBB/Stable		--		--	Suspended
Non-Fund Based Facilities	ST	275.0	CRISIL A2		--	05-04-21	CRISIL A3+		--		--	Suspended
Corporate Credit Rating	LT	0.0	CCR BBB+/Stable		--	05-04-21	CCR BBB/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating

Fund-Based Facilities	150	UCO Bank	CRISIL BBB+/Stable
Fund-Based Facilities	42	Bank of Baroda	CRISIL BBB+/Stable
Fund-Based Facilities	51	Union Bank of India	CRISIL BBB+/Stable
Fund-Based Facilities	84	Punjab National Bank	CRISIL BBB+/Stable
Fund-Based Facilities	20	Indian Bank	CRISIL BBB+/Stable
Fund-Based Facilities	20	The South Indian Bank Limited	CRISIL BBB+/Stable
Fund-Based Facilities	36	Canara Bank	CRISIL BBB+/Stable
Fund-Based Facilities	33	Bandhan Bank Limited	CRISIL BBB+/Stable
Non-Fund Based Limit	1.17	Indian Bank	CRISIL A2
Non-Fund Based Limit	18	Bank of Baroda	CRISIL A2
Non-Fund Based Limit	43	Union Bank of India	CRISIL A2
Non-Fund Based Limit	18.83	Indian Bank	CRISIL A2
Non-Fund Based Limit	85	UCO Bank	CRISIL A2
Non-Fund Based Limit	24	Punjab National Bank	CRISIL A2
Non-Fund Based Limit	5	The South Indian Bank Limited	CRISIL A2
Non-Fund Based Limit	10	Canara Bank	CRISIL A2
Proposed Fund-Based Bank Limits	89	Not Applicable	CRISIL BBB+/Stable
Proposed Long Term Bank Loan Facility	96.28	Not Applicable	CRISIL BBB+/Stable
Proposed Non Fund based limits	70	Not Applicable	CRISIL A2
Term Loan	63.39	Punjab National Bank	CRISIL BBB+/Stable
Term Loan	62.94	Indian Bank	CRISIL BBB+/Stable
Term Loan	39.85	State Bank of India	CRISIL BBB+/Stable
Term Loan	20.65	Bank of Baroda	CRISIL BBB+/Stable
Term Loan	30	Canara Bank	CRISIL BBB+/Stable
Term Loan	128	Union Bank of India	CRISIL BBB+/Stable
Term Loan	100.57	Punjab National Bank	CRISIL BBB+/Stable
Term Loan	108.34	UCO Bank	CRISIL BBB+/Stable
Term Loan	41.43	Bank of Baroda	CRISIL BBB+/Stable
Working Capital Facility	5.23	UCO Bank	CRISIL BBB+/Stable
Working Capital Facility	1.87	Punjab National Bank	CRISIL BBB+/Stable
Working Capital Facility	1.45	Punjab National Bank	CRISIL BBB+/Stable

This Annexure has been updated on 05-Jan-2022 in line with the lender-wise facility details as on 05-Jan-2022 received from the rated entity.

Criteria Details

Links to related criteria
Rating criteria for manufaturing and service sector companies
CRISILs Approach to Financial Ratios
Rating Criteria for Steel Industry
Criteria for rating entities belonging to homogenous groups

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