Press Release

Shivam Iron & Steel Company Limited

June 10, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Ratings Action
1	Long Term Bank Facilities	15.00	IVR BBB- (Credit watch with developing implications) (IVR Triple B Minus under Credit watch with developing implications)	Assigned
	Total	**15.00 (Rupee Fifteen Crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Shivam Iron & Steel Company Limited (SISCO) draws comfort from extensive experience of its promoters in the steel industry, strategic location of plant with semi-integrated nature of its operations and diversified clientele. The rating also positively factors in its healthy scale of operations, gradual improvement in capital structure and moderate debt protection metrics. However, these rating strengths remain constrained due to lack of backward integration, susceptibility of profitability to volatility in raw material and finished goods prices, exposure to foreign exchange fluctuation risk and working capital intensive nature of operations. The ratings also consider intense competition and cyclicality in the steel industry. The rating remains under credit watch with developing implications owing to uncertainty in the demand scenario attributable to recent pandemic scenario and its impact on the macro-economic situations.

Key Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics

- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors:

- Dip in operating income and/or profitability impacting the debt coverage indicators,
- Deterioration in the capital structure with overall gearing to below 1.5x and interest coverage to below 1.5x
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 95% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter with long track record**

  SISCO, having commenced operation in the year 1998 has a track record of being engaged in steel manufacturing business for over two decades. Over the years the company has established its presence in the steel manufacturing segment in the state of Jharkhand. SISCO was promoted by Mr. Binod Kumar Agarwala, Mr. Arun Kumar Agarwal, Mr. Pramod Kumar Agarwal & Mr. Shiv Kumar Agarwal. The promoters are having more than 25 years of experience in the steel industry. Before incorporation of SISCO the promoters were into trading of steel products.
- **Strategic location of plant**

  The manufacturing facility of SISCO is located in mineral rich regions of Jharkhand where there is a cluster of sponge iron plant as well as mini/ integrated steel plants. Hence, sourcing of raw materials like sponge iron and selling of finished goods like ingots, ferro-alloys to end use steel manufacturers is not an issue.
- **Semi-integrated nature of operations**

  The company has manufacturing facilities for intermediate products like sponge iron, billets as well as value added products like TMT bars & structural. Besides, the company also has a Ferro-alloy plant at its premises in Giridh, Jharkhand.
- **Diversified Clientele**

  The top ten customers, comprised around ~25% of total sales in FY19, which indicates its diverse clientele.

- **Healthy scale of operations**

  The company reported healthy revenue of Rs.483.17 crore during FY19. SISCO has achieved continuous growth over the past three years. It's total operating income (TOI) registered a CAGR of ~9% during FY16-FY19 with a y-o-y growth of ~13% in FY19. The growth in total operating income is largely driven by improvement in average sales realisation in its products attributable to improvement in domestic steel demand scenario. During FY19, the export sales of the company witnessed a deterioration of ~ 46% as with improvement in domestic prices the company reduced its export sales and gave impetus to domestic sales which resulted in a steady growth of ~58% in domestic sales. Further, the company has an established presence in the market of Bihar and Jharkhand coupled with healthy relationship with supplier and dealers/distributers which helped the company to increase its scale of operations. With improvement in TOI, absolute EBIDTA and EBIDTA margin has also improved gradually during the aforesaid period. The PAT margin of the company remained thin during FY17 and FY18. However, the same has improved from 0.83% in FY18 to 1.07% in FY19 driven by stagnation in interest outgo and improvement in absolute EBIDTA. Further, the company has earned cash accruals of Rs.13.91 crore (improved from Rs.12.25 crore in FY18) as against its repayment obligation of Rs.7.70 crore during FY19. However, during FY20, the revenue dipped ~ 10 % on account of dip in the realisation. The company estimated to achieve ~ Rs.430 crore during FY20 with volume sales remaining intact thereby keeping the operating margin intact.

- **Improvement in the capital structure and moderate debt protection parameters**

  SISCO has witnessed gradual improvement in its capital structure over the last three account closing dates backed by infusion of equity capital to the tune of Rs.6.60 crore during the aforesaid period (FY17-FY19), scheduled repayment of term debt obligations and accretion of profit to net worth. The debt equity ratio remained satisfactory and improved from 0.49x as on March 31, 2017 to 0.34x as on March 31,2019 and the overall gearing ratio though remained moderate improved from 1.58x as on March 31,2017 to 1.33x as on March 31,2019. Total indebtedness as reflected by the TOL/TNW also remained satisfactory at 1.82x as on March 31, 2019 (1.84x as on March 31, 2018). The interest coverage ratio stood satisfactory at 1.80x in 9MFY20. Going forward, Infomerics expects that the financial risk profile to remain satisfactory in the near term with marginal improvement in the capital structure.

Key Rating Weakness:

- **Lack of backward integration vis-à-vis volatility in prices of raw material as well as finished goods**

  SISCO lacks complete backward integration of its primary raw materials i.e. pig iron, sponge iron, scrap and coal and a captive power plant. Since, raw material and power are the largest cost component for the company (constituting around 92-93% of total cost of sales in last three years), SISCO is susceptible to volatility in input material prices and cost of power. The company does not have any coal linkage and procure the coal from local traders along with import of higher quality coal mainly from South Africa. The company also imports manganese ore from Australian and South Africa. In absence of captive source or iron ore/manganese ore, any adverse movement in the raw material prices without any corresponding movement in finished goods price might affect the performance of the company. SISCO procures power from Damodor Valley Corporation (DVC) and is also susceptible to change in power prices. On the other hand, the finished foods are also volatile and dependent upon economic cycles and global demand supply scenarios.

- **Exposure to Foreign exchange fluctuation risk**

  The company imports coal & manganese ore from mainly South Africa and Australia. Along with imports, the company is also exporting its goods (ferro products) to various countries like Japan, South Korea, Taiwan etc. Backed by its export operations the company enjoys natural hedging. However, for any unhedged portion the company use derivatives to protect its margins. As on Dec 31, 2019, the total foreign currency exposure of SISCO was Nil (this was due to natural hedge).

- **Intense competition**

  The Indian secondary steel industry comprises many small to medium steel manufacturers along with large and established players and is characterised by high degree of fragmentation. Presence of many players with lower product differentiation limits pricing power of the company.

- **Working capital intensive nature**

  The nature of business of SISCO requires the company to maintain a high level of raw material inventory to ensure uninterrupted production. The major reason being high amount of raw material stock holding as on the closing dates, which is very common in the iron & steel companies situating in Eastern India as the companies hoard the raw materials before the rainy season, as raw materials bought in the later stage, have a lot of moisture resulting in wastage. Also as the company imports raw materials in the form of coal & manganese ore from mainly South Africa and Australia the company has to store them in bulk due to long transit period. Furthermore, the company has to offer credit period of about a month to its customer due to weak bargaining power of the company due to intense competition in the industry. On the other hand, it has to pay its creditors within 20-35 days. The working capital cycle remained elongated and stood at 186 days in FY19 (208 days in FY18) due to its high inventory holdings. The working capital requirements of the company is mostly funded by its bank borrowings and consequently its average utilization of bank borrowings remained on the higher side at ~95% during the last 12 months period ended March, 2020.

- **Cyclicality in the steel industry**

  The steel industry is highly cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate marked by sufficient cushion in its accruals vis-à-vis repayment obligations. The company has term debt repayment obligation of Rs.7.82 crore and Rs.7.35 crore in FY21 and FY22 respectively. Further, the liquidity is also supported by no near-term capex plan of the company. However, average utilisation of its bank limits is remained high at ~95% in the past 12 months ended March, 2020 indicating a limited cushion.

About the Company

Incorporated in September, 1998, Jharkhand based, Shivam Iron & Steel Company Limited (SISCO) was promoted by Mr. Binod Kumar Agarwala, Mr. Arun Kumar Agarwal, Mr. Pramod Kumar Agarwal & Mr. Shiv Kumar Agarwal. SISCO is engaged in manufacturing of sponge iron, Mild Steel (MS)/stainless steel (SS) ingots, billets, pig iron, hard coke, MS structural items such as angles, channels, bars, and flats, SS flats, and ferro-alloys (silico alloys and ferro-manganese). The manufacturing facilities of the company are located in Koderma (Sponge iron unit, 90000 MT) and in Giridh (other manufacturing facilities, 40000 MT of Ferro Alloys, 36000 MT of Rolling Mills (Structural) and 100000 MT of SMS Division (Billet, Ingot, TMT Bar) both are in Jharkhand. The manufacturing facilities of the company have quality systems certifications of ISO: 9001:2008.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	426.77	483.17
EBITDA	37.73	39.87
PAT	3.53	5.19
Total Debt	177.53	167.03
Tangible Net worth	120.53	125.72
EBITDA Margin (%)	8.84	8.25
PAT Margin (%)	0.83	1.07
Overall Gearing Ratio (x)	1.47	1.33

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: India Ratings has moved the rating of Shivam Iron & Steel Co. Ltd into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated April 30, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	15.00	IVR BBB- (Credit watch with developing implications) (IVR Triple B Minus under Credit watch with developing implications)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	15.00	IVR BBB- (Credit watch with developing implications) (IVR Triple B Minus under Credit watch with developing implications)
Total				**15.00**	