Press Release

SMC Power Generation Limited

February 28, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	883.40 (including proposed amount of Rs.36.72 crore)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	16.60	IVR A2 (IVR A Two)	Assigned	Simple
Total	**900.00 (Rupees Nine Hundred crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of SMC Power Generation Limited (SPGL) derive strength from the extensive experience of the promoters in the steel industry with established brand name, integrated nature of operations with proximity to raw material sources and increase in scale of operations in FY22 and 9MFY23. The ratings are, however, constrained by moderate financial risk profile, risks associated with volatility in the raw material prices, intense competition, cyclicality in the steel industry and geographical concentration risk.

Key Rating Sensitivities:

Upward Factors

- Sustained increase in scale of operation of more than 30% with improvement in cash accruals.
- Improvement in profitability with EBITDA margin above 10% on a sustained basis.
- Improvement in capital structure with reduction in overall gearing below 1x.

Downward Factors

- Decrease in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.

- Withdrawal of subordinated unsecured loan (treated as quasi-equity) amounting to Rs.114.00 crore either partially or fully, leading to moderation in the capital structure.
- Deterioration in the overall gearing ratio above 1.50x.
- Deterioration in operating cycle above 100 days impacting the liquidity.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall gearing ratio.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the steel industry with established brand name

SPGL is promoted by Mr. Mool Chand Aggarwal (Chairman & Managing Director), Mr. Subhash Chand Aggarwal (Director) and Mr. Chander Prakash Aggarwal (Director) who have an experience of more than four decades in steel and other businesses. SPGL benefits from the long experience of its promoters in the industry, which has helped it develop strong relationship with the customers and suppliers. The company has a team of experienced and capable professionals, having close to three decades of experience in their respective fields. The company is a part of SMC group which has diversified business interests including dairy products through its flagship companies namely SMC Foods Ltd. and Creamy Foods Ltd. The company is selling TMT Bars and other products under the brand name “MAJBOOT “.

Integrated nature of operations with proximity to raw material sources

SPGL’s manufacturing facilities are vertically integrated. It produces sponge iron, which is captively consumed to manufacture billets, which in turn is used to produce TMT bars. SPGL also has a 110-MW captive power plant, which meets most of its power requirements. The vertical integration in operations lends considerable operational efficiencies and leads to a favourable cost structure. Moreover, SPGL’s manufacturing unit is located in Odisha, in proximity to raw material sources like iron ore and coal, which provides access to key inputs and leads to saving in transportation costs.

Increase in scale of operations in FY22 and 9MFY23

The company’s revenue remained range bound between Rs.857-763 crore in FY20-21 due to lower volume of sales owing to fluctuations in steel prices due to covid-19. However, it improved substantially by 141.35% in FY22, from Rs.763.23 crore in FY21 to Rs.1842.09 crore in FY22 due to increase in volume of sales (FY21: 1,96,031 MTPA, FY22: 3,16,053 MTPA) as well as better realisations (FY21: Rs.36,130 per MT, FY22: Rs.47,283 per MT). Further, in 9MFY23, SPGL's revenue increased by 13.80%, from Rs.1230.88 crore in 9MFY22 to Rs.1400.76 crore in 9MFY23 due to increase in volume of sales. The company has completed a capex of Rs.725.00 crore in FY22 whereby its installed capacity has increased to 4,64,000 MTPA for Sponge Iron, 6,30,000 MTPA for manufacturing billets, 3,50,000 MTPA for manufacturing of TMT bars. The capex was funded by way of term loans of Rs.571.00 crore, and balance Rs.154.00 crore of internal accruals. Going forward, the significant increase in installed capacity is expected to benefit the company in many ways like increasing its scale of operations, giving it economies of scale etc.

Key Rating Weaknesses

Moderate financial risk profile

The financial risk profile of the company is marked by moderate capital structure and debt protection metrics. SPGL has recently commissioned a capex which was largely funded by way of debt. As such its capital structure has deteriorated with overall gearing and TOL/ TNW (based on networth adjusted for quasi equity) at 1.26x and 1.57x respectively as on March 31, 2022 from 0.94x and 1.11x respectively as on March 31, 2021, but continues to be moderate. The promoters have been regularly infusing funds by way of unsecured loans which are subordinated to the bank debt, which keeps the networth (including quasi equity) at comfortable levels. The debt protection metrics also remained moderately healthy with interest coverage ratio and total debt/ GCA ratio of 3.71x and 7.75x respectively in FY22 as against 7.02x and 5.75x respectively in FY21. Interest coverage ratio was at 3.45x in 9MFY23. With repayments commencing from April 2022, the capital structure and debt protection metrics are expected to improve going forward.

Risks associated with volatility in the raw material prices

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw material used in the production of billets and wire rods is iron ore and coal. The company does not have any long-term agreement for procurement of iron ore and coal, and procures most of the iron ore and coal requirement from the spot market (domestic or international depending on pricing), thus exposing it to the volatility in the raw material price. Further, the finished steel prices are also highly volatile and prone to fluctuations based on global demand-supply situations and other macro-economic factors, which leaves its profitability highly susceptible to the price volatility.

Intense competition

The steel manufacturing industry is characterized by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including SPGL.

Cyclicality in the steel industry

The domestic steel industry is highly cyclical in nature and has witnessed prolonged periods of downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Geographical concentration risk

SPGL's manufacturing facility is in Odisha and most of its sales are made in the state, exposing the company to geographical concentration risk. However, with an increasing capacity, the company has forayed into Uttar Pradesh and surrounding areas of Odisha reducing this risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

Policy on Default Recognition

Criteria of assigning Rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

SPGL's liquidity position remained adequate marked by current ratio of 1.17x as on March 31, 2022. The GCA has also improved from Rs.89.94 crore in FY21 to Rs.103.30 crore in FY22. The company's cash accruals are sufficient to meet its obligations due in FY23-25. The average utilisation if its working capital facilities is 81.58% in the 12 months ended December 2022, giving it sufficient headroom. The company has completed the capex and has no major plans to do more capex in FY23-25, except for maintenance capex of Rs.66.51 crore to be funded by way of internal accruals.

About the company

SPGL was incorporated in the year 2000 for establishment of an integrated steel plant, which was established in the year 2004 under an MOU with the state govt. at Jharsuguda, Odisha. The company is promoted by Mr. Mool Chand Aggarwal, Mr. Subhash Chand Aggarwal and Mr. Chander Prakash Aggarwal.

SPGL is a closely held public limited company engaged in manufacturing of sponge iron, billets and TMT bars. It has two manufacturing units in Odisha with an annual capacity of 4,64,000 MTPA for Sponge Iron, 6,30,000 MTPA for manufacturing Billets and 3,50,000 MTPA for manufacturing of TMT bars. Further, there is captive power generation agreegating upto 110 MW. SGPL is selling TMT Bars and other products under the brand name "MAJBOOT ".

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	763.23	1842.09
EBITDA	123.89	151.08
PAT	64.09	51.25
Total Debt	517.44	800.20
Adjusted Tangible Networth (including quasi equity)	547.77	635.98
Ratios		
EBITDA Margin (%)	16.23	8.20
PAT Margin (%)	8.38	2.78
Adjusted Overall Gearing Ratio (including quasi equity) (x)	0.94	1.26

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	381.68	IVR BBB+/ Stable	-	-	-
2.	Cash Credit	Long Term	375.00	IVR BBB+/ Stable	-	-	-
3.	Proposed Cash Credit	Long Term	36.72	IVR BBB+/ Stable	-	-	-
4	Working Capital Demand Loan	Long Term	90.00	IVR BBB+/ Stable	-	-	-
5	Letter of Credit	Short Term	10.00	IVR A2	-	-	-
6	Forward Cover Limit	Short Term	3.60	IVR A2	-	-	-
7	Loan Equivalent Risk (LER)	Short Term	3.00	IVR A2	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2028	381.68	IVR BBB+/ Stable
Cash Credit	-	-	-	375.00	IVR BBB+/ Stable
Proposed Cash Credit	-	-	-	36.72	IVR BBB+/ Stable
Working Capital Demand Loan	-	-	-	90.00	IVR BBB+/ Stable
Letter of Credit	-	-	-	10.00	IVR A2
Forward Cover Limit	-	-	-	3.60	IVR A2
Loan Equivalent Risk (LER)	-	-	-	3.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-SMCPower-feb23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.