



## Press Release

**SMC Power Generation Limited**

**March 27, 2024**

### **Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Ratings</b>	<b>Rating Action</b>	<b><u>Complexity Indicator</u></b>
Long Term Bank Facilities	724.00 (reduced from 883.40 and includes proposed limit of 0.47)	IVR BBB+/ Stable (IVR triple B plus with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	13.00 (reduced from 16.60)	IVR A2 (IVR A two)	Reaffirmed	Simple
<b>Total</b>	<b>737.00</b> <b>(Seven hundred and thirty seven crore only)</b>			

**Details of Facilities are in Annexure 1**

### **Detailed Rationale**

Infomerics has reaffirmed its rating on bank facilities of SMC Power Generation Limited (SPGL) on the back of 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 FY23 and 9MFY2024 (provisional). The ratings are, however, constrained by moderate financial risk profile, risks associated with volatility in the raw material prices, intense competition, cyclicity 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**



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- 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.150.00 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.



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### **Increase in scale of operations in FY23 and 9MFY2024 (provisional)**

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 and 10.83% in FY23 to Rs. 1842.09 crore in FY22 and Rs. 2040.23 crore in FY23 due to an increase in volume of sales as well as better realisations Further, in 9MFY2024 (provisional), SPGL's revenue increased by ~29% to Rs. 1817 crore. The company has completed a capex 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. 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. The capital structure considers Rs. 150 crore of unsecured loan from promoters and related parties, which has been treated as quasi equity (Rs. 114. Crore of quasi equity as on March 31, 2022). Therefore, on an adjusted basis as on March 31, 2023, overall gearing and TOL/ TNW (based on networth adjusted for quasi equity) was 1.10x and 1.48x respectively as compared with 1.26x and 1.57x respectively as on March 31, 2022. The promoters have been regularly infusing funds by way of unsecured loans which are subordinated to the bank debt, which keeps the net worth (including quasi equity) at comfortable levels. The debt protection metrics – ISCR deteriorated to 1.98 times in FY23 (PY:3.71 times) due to high interest cost in FY23. Interest coverage ratio improved to 2.71x in 9MFY24. The capital structure and debt protection metrics are expected to improve going forward, with scheduled debt repayments and an increase in profit and network

### **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-



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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 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.

### **Cyclical 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:**

[Criteria of assigning Rating Outlook](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Default Recognition Policy](#)

[Rating Methodology for Manufacturing Companies](#)

**Liquidity:** Adequate



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The liquidity position of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY24-FY26. The average fund based utilisation for the past twelve months ended January, 2024 remained moderate at 68% indicating a sufficient cushion. The company had cash balance of Rs. 11.44 crore as of March 31, 2023. Absence of any debt funded capex provides further comfort to the liquidity position.

### 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 aggregating upto 110 MW. SPGL sells TMT Bars and other products under the brand name "MAJBOOT".

### Financials (Standalone):

(Rs. crore)		
For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	1842.09	2040.23
EBITDA	151.08	148.89
PAT	51.25	14.46
Total Debt	800.20	755.45
Adjusted Tangible Networth (including quasi equity)	635.98	686.34
EBITDA Margin (%)	8.20	7.30
PAT Margin (%)	2.78	0.71
Adjusted Overall Gearing Ratio (including quasi equity) (x)	1.26	1.10

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil



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### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Feb 28, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	258.53	IVR BBB+/Stable	IVR BBB+/Stable	-	-
2.	Cash Credit	Long Term	375.00	IVR BBB+/Stable	IVR BBB+/Stable	-	-
3.	Proposed Cash Credit	Long Term	0.47	IVR BBB+/Stable	IVR BBB+/Stable	-	-
4.	Working Capital Demand Loan	Long Term	90.00	IVR BBB+/Stable	IVR BBB+/Stable	-	-
5.	Letter of Credit	Short Term	10.00	IVR A2	IVR A2	-	-
6.	Forward Cover Limit	Short Term	3.00	IVR A2	IVR A2	-	-
7.	Loan Equivalent Risk (LER)	Short Term	-	Withdrawn	IVR A2	-	-

### Name and Contact Details of the Rating Analyst:

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration





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from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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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
Term Loan 1	-	-	September, 2024	4.13	IVR BBB+/ Stable
Term Loan 2			August, 2025	33.30	IVR BBB+/ Stable
Term Loan 3	-	-	June, 2026	47.90	IVR BBB+/ Stable
Term Loan 4	-	-	March, 2028	63.92	IVR BBB+/ Stable



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan 5	-	-	July, 2027	32.50	IVR BBB+/ Stable
Term Loan 6			March, 2028	21.04	IVR BBB+/ Stable
Term Loan 7	-	-	March, 2028	22.18	IVR BBB+/ Stable
Term Loan 8	-	-	March, 2028	20.00	IVR BBB+/ Stable
GECL 1	-	-	March, 2026	9.56	IVR BBB+/ Stable
GECL 2	-	-	March, 2026	4.00	IVR BBB+/ Stable
Cash Credit 1			-	100.00#	IVR BBB+/ Stable
Cash Credit 2	-	-	-	90.00*	IVR BBB+/ Stable
Cash Credit 3	-	-	-	65.00**	IVR BBB+/ Stable
Cash Credit 4			-	80.00	IVR BBB+/ Stable
Cash Credit 5	-	-	-	40.00***	IVR BBB+/ Stable
Proposed Cash Credit	-	-	-	0.47	IVR BBB+/ Stable
Working Capital Demand Loan	-	-	-	90.00^	IVR BBB+/ Stable
Letter of Credit	-	-	-	10.00****	IVR A2
Forward Cover Limit	-	-	-	3.00	IVR A2

#Sublimit: WCDL of Rs.100.00 crore

^Sublimit: Cash Credit of Rs.90.00 crore

\*Sublimit: WCDL of Rs.90.00 crore; LC of Rs.60.00 crore; BG of Rs.60.00 crore;

\*\*Sublimit: Letter of Credit of Rs.65.00 crore

\*\*\*Sublimit: WCDL of Rs.40.00 crore; LC of Rs.25.00 crore

\*\*\*\*Sublimit: Bank Guarantee of Rs.2.50 crore

**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-mar24.pdf>





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**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](http://www.infomerics.com).