

October 30, 2024

Steamhouse India Limited: Ratings downgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	110.0	81.8	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Long-term – Fund-based working capital limits	10.0	6.02	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Long-term – Fund-based working capital limits (demand loan)	20.0	0.00	-
Short term - Non-fund based	31.0	42.00	[ICRA]A3+; downgraded from [ICRA]A2
Long-term/Short term – Unallocated	12.0	53.18	[ICRA]BBB (Stable)/ [ICRA]A3+; downgraded from [ICRA]BBB+(Stable)/ [ICRA]A2
Total	183.0	183.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings downgrade for Steamhouse India Limited (SIL) factors in its weaker-than-expected performance in FY2024 along with an increase in the debt levels that moderated the debt coverage indicators. Though the company reported a ~20% volume growth in FY2024, the overall earnings were significantly lower than expectations due to a decline in realisations and delays in the commissioning of new projects. The company reported an interest coverage of 3.9 times in FY2024 and total debt/OPBDITA of 3.3 times as on March 31, 2024, against an interest coverage of 6.5 times in FY2023 and total debt/OPBDITA of 2.2 times as on March 31, 2023. The revenues also remained constrained by the cyclical nature of the end-user industries like the chemical and agrochemical sectors, which account for 50-70% of the company's total revenue.

Further, the ratings are constrained by the large ongoing debt-funded capex, which exposes the company to risks associated with the timely completion of the project within the budgeted cost. Additionally, the subsequent ramp-up of operations in accordance with the expected operating parameters will remain a key monitorable. The company is also exposed to contract termination and lower offtake risks. ICRA notes that the operation of boilers is regulated by Central and state laws, and any adverse change in regulations may have an impact on the company's revenues and profitability.

The ratings, however, continue to factor in SIL's established market position in the niche market. The company has gained a first-mover advantage by developing its expertise in the steam distribution system to maintain high-quality steam distribution. The ratings also consider the company's reputed clientele, although it remains moderately concentrated. Further, the company expects a healthy revenue growth in the current fiscal, supported by enhanced capacity of 428 TPH (tons per hour) along with the gradual commencement of additional capacity, which will be implemented in phases throughout the year.

The Stable outlook on SIL's rating reflects ICRA's opinion that the company will continue to benefit from its established position as a supplier of steam products in the domestic market and a strong client profile which is expected to keep the earnings healthy, going forward.

Key rating drivers and their description

Credit strengths

First-mover advantage in steam generation and distribution segment – The community boiler business is a novel concept in India and the company (being the first one to introduce the concept) has the first-mover advantage over other players. By leveraging the latest technologies, the company has optimised the supply of steam to industries at the required quality (moisture content, pressure, temperature etc.). The in-house development of technology and expertise in steam distribution has helped the company scale up operations over the years. Being the first mover in this market, the company has a competitive advantage.

Supply contracts with reputed clientele provide revenue visibility – SIL caters to various industries, including pharma, chemicals, textiles, healthcare, agrochemicals etc. The customer profile consists of reputed customers, such as Heranba Industries Limited, Cadila Pharmaceuticals Limited, Lupin Limited, Atul Limited, Glenmark Life Sciences, Aether Industries Limited, Anupam Rasayan Limited and Zydus Lifesciences Limited, among others. The company has medium-term contracts for a period of 3-7 years with these clients. The customer concentration remained moderately high with the top-10 customers contributing to 60% of the revenue in FY2024, though it reduced from 90% in FY2021 with the addition of new customers after the commencement of various plants. Going forward, with the expected commencement of the upcoming plants and a scale-up of the operations, the customer concentration is expected to reduce further. Moreover, the company's profit margins are safeguarded through price variation clauses for the key raw material (i.e., coal).

Credit challenges

Moderation in debt coverage indicators – The company reported a ~20% volume growth in FY2024. However, the overall earnings were significantly lower than expectations due to a decline in realisations and delays in the commissioning of new projects. Lower growth in earnings and the increased debt levels moderated the debt coverage indicators, with the company reporting interest coverage of 3.9 times for FY2024 and total debt/OPBDITA of 3.3 times as on March 31, 2024, against an interest coverage of 6.5 times in FY2023 and total debt/OPBDITA of 2.2 times as on March 31, 2023. The DSCR is expected to moderate in FY2025 over FY2024 because of the increased interest cost and high debt repayments. Nevertheless, the debt coverage indicators are expected to improve from FY2026 onwards with the commissioning of new projects, though the extent of the improvement remains to be seen.

Risk associated with debt-funded capex and subsequent ramp-up of operations - The company is in the process of expanding its capacity to 503 TPH (from current 428 TPH) with the installation of boilers at various locations at an estimated cost of Rs. 60 crore. The said capex is to be funded through a mix of term loans and internal accruals. Timely project completion within the budgeted cost and the subsequent ramp-up as per the expected operating parameters remain the key monitorables, given the high leverage levels (gearing of 2.2 times as on March 31, 2024).

Exposure to contract termination risk - The cash flows are susceptible to contract termination by the existing clients, given the weak exit clause of the agreements. A contract can be terminated by either party after giving a notice of six months/one year. Notwithstanding this, historically, the company has not witnessed any major contract termination from its key clients. At present, the company has secured contracts for a capacity of 278 TPH, which represents 93% of the operational capacity of 300 TPH.

Regulatory risk - The operation of boilers is governed by The Boiler Act, 1923, and the company operates in compliance with the guidelines established by the relevant authorities. However, any adverse change in the regulations could potentially have an impact on the company's operations and earnings. Additionally, the company relies entirely on Indonesian coal as its raw material to generate steam and, hence, the timely availability of the raw material is critical to ensure that the operations are sustained.

Liquidity position: Adequate

The company's liquidity profile remains adequate with healthy anticipated cash flow from operations against the aligned repayment. Moreover, the company has cushion in the fund-based facilities (85% utilisation in the last 12-month period ended March 2024) to support the liquidity.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in revenues, accompanied by a diversification in the customer base and better profitability, which would improve the capital structure and liquidity position.

Negative factors – ICRA could downgrade the ratings if any significant decline in the scale or profitability results in a deterioration in the company's financial risk profile. Any stretch in the working capital cycle or a higher-than-anticipated debt-funded capex that puts pressure on the liquidity and key credit metrics would also weigh on the ratings. A specific trigger for downgrade would be DSCR below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SIL

About the company

Steamhouse India Limited (SIL) operates boilers to generate steam. The generated steam is sold to industrial clusters through an overhead pipeline network. The Group started its first plant at Sachin GIDC in FY2015 under Sanjoo Dyeing and Printing Mills Limited. Over the years, the Group gradually expanded its capacity at various locations, including Ankleshwar, Vapi, Sachin and Sarigram. Each plant was created under separate special purpose vehicles (SPVs). Subsequently, all these SPVs were consolidated under the ownership of Ankleshwar Eco Energy Limited and ultimately merged into it. Ankleshwar Eco Energy Limited was renamed Steamhouse India Limited.

Key financial indicators (audited)

SIL Standalone	FY2023	FY2024
Operating income	328.4	291.7
PAT	33.6	26.0
OPBDIT/OI	17.7%	23.6%
PAT/OI	10.2%	8.9%
Total outside liabilities/Tangible net worth (times)	3.3	3.1
Total debt/OPBDIT (times)	2.2	3.3
Interest coverage (times)	6.5	3.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Oct 30, 2024	July 03, 2023	-	-
1 Term loan	Long term	81.8	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	-	-
2 Working capital facilities	Long term	6.02	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)		
3 Working capital facilities - Demand Loan	Long term	-	-	[ICRA]BBB+ (Stable)		
4 Non-fund based facilities	Short term	42.00	[ICRA]A3+	[ICRA]A2		
5 Unallocated limits	Long term and short term	53.18	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB+ (Stable)/ [ICRA]A2		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term – Fund-based working capital OD	Simple
Long-term – Fund-based working capital demand loan	Simple
Short term - Non-fund based	Very Simple
Long-term/Short term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2021-FY2023	NA	FY2029-FY3031	25.8	[ICRA]BBB (Stable)
NA	Term loan	FY2025	NA	FY2031	26.0	[ICRA]BBB (Stable)
NA	Term loan	FY2025	NA	FY2029	30.0	[ICRA]BBB (Stable)
NA	Working capital facility	NA	NA	NA	6.02	[ICRA]BBB (Stable)
NA	Non-fund based	NA	NA	NA	42.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	53.18	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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Branches



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