April 09, 2025

Shyam Century Ferrous Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based - Working capital	26.00	24.00	[ICRA]BBB+ (Negative); reaffirmed
Short term non-fund based – Letter of credit	8.00	10.00	[ICRA]A2+; reaffirmed
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of the ratings, along with the continuation of the Negative outlook on the long-term rating for Shyam Century Ferrous Limited (SCFL), reflects the sustained pressure on its operating performance and profitability in FY2024 and 9M FY2025. The weak operating performance was triggered by a moderation in ferro-silicon prices coinciding with a disruption in power supply in FY2024, as a weak monsoon in Meghalaya lowered hydropower generation, resulting in power outages of 16-18 hours per day. Although the power supply situation improved in FY2025, subdued ferro-silicon prices and a steep escalation in energy charge by the state discom in 9M FY2025 to Rs. 6.4/unit from Rs. 4.9/unit in FY2024 kept SCFL's power costs at elevated levels. These cost pressures and weaker ferro-silicon realisations weighed heavily on the profitability, with SCFL reporting an operating loss of Rs. 3.6 crore in FY2024, which further deteriorated to an operating loss of Rs. 8.7 crore in 9M FY2025. The decline was exacerbated by the ~70-day plant shutdown in 9M FY2025 due to restrictions imposed by the Pollution Control Board. Additionally, SCFL, along with other ferroalloy producers in the North East, continues to face competitive pressure from the imports from Bhutan, where producers benefit from the significantly lower power tariff from hydropower, thereby impacting SCFL's overall competitiveness.

Despite these challenges, SCFL's ratings continue to be supported by its comfortable financial risk profile, characterised by its net debt-negative status and a strong liquidity position. The company benefits from significant financial flexibility, being a part of the Century Group, which enables it to secure funding at competitive interest rates. SCFL's liquidity remains robust, with ample headroom in the form of undrawn working capital limits and a sizeable cash and liquid investment balance, giving it resilience to withstand the ongoing industry downturn. The recent imposition of safeguard duties is also expected to support steel prices in FY2026, which could positively impact ferroalloy manufacturers, including SCFL, thereby improving the demand outlook in the near term.

The ratings, however, are constrained by SCFL's small scale of operations, which makes the company vulnerable to a period of sustained industry downturn. The company is exposed to significant volatility in earnings, given the cyclical nature of the steel industry, the key end user for ferrosilicon. ICRA also notes that many industries based in Meghalaya, including SCFL, remain exposed to regulatory risks as any unfavourable change in Government policy may impact the raw material availability and restrict production.

Key rating drivers and their description

Credit strengths

Comfortable capital structure - SCFL has a comfortable financial risk profile, characterised by its long-term debt-free status, leading to healthy total outside liabilities/tangible net worth (TOL/TNW) of 0.1 times as on September 30, 2024 (0.1 times as on March 31, 2024). The sizeable cash and liquid investments have led to a net debt negative status for the company since FY2021.

Strong liquidity profile provides ample headroom to withstand industry downturn - The company's liquidity is strong, supported by a significant headroom in undrawn working capital limits and sizeable cash and liquid investments. The company had undrawn working capital facilities of ~Rs. 16.96 crore as on February 28, 2025, as well as free cash and liquid investments of ~Rs. 80.25 crore as on March 27, 2025.

High financial flexibility from being a part of the Century Group - SCFL continues to demonstrate strong financial flexibility, supported by its status as a part of the Century Group. The flagship company of the Century Group is Century Plyboards Limited (rated [ICRA]AA(Stable)/[ICRA]A1+), a dominant player in the plywood industry. Other notable companies in the Group include Star Cement Ltd, a leading cement manufacturer in the northeastern market. SCFL's parentage is expected to help it secure funding at competitive rates.

Ferro-alloy manufacturers, including SCFL, to benefit from safeguard duty levy in FY2026 – In a move to support domestic steel manufacturers, the Directorate General of Trade Remedies (DGTR) has proposed a 12% provisional safeguard duty on select flat steel products for 200 days. This move has already pushed up steel prices by 7-8% in the last 1-2 months. This is expected to improve the operating environment for ferro-alloy producers like SCFL.

Credit challenges

Significant volatility in earnings, given the cyclical nature of steel industry; operations remain loss-making in 9M FY2025 due to power cost escalations and subdued ferro-alloy realisations – The company's operating income declined by 24% YoY in FY2024 due to lower sales volumes and a drop in ferrosilicon prices. There was also a sharp increase in power expenses last fiscal because of low hydropower generation in Meghalaya, resulting in prolonged power cuts of up to 16-18 hours per day and forcing the company to rely on costlier power procurement from IEX. Therefore, the share of power cost in the cost structure rose to 51% of the turnover in FY2024 from 35% in FY2023, pushing SCFL's operating profits to the negative. While Meghalaya Power Distribution Corporation Limited's (MePDCL) power supply constraints have eased for the rest of FY2025, the energy charge was raised to Rs. 6.4/unit in FY2025 from Rs. 4.9/unit in FY2024. The revised energy charges, along with SCFL's continued dependence on costlier open-access power, kept the blended power cost elevated at ~Rs. 5.79/unit in 9M FY2025, significantly higher than Rs. 4.7-5.0 per unit witnessed between FY2021 and FY2023. These cost pressures, coupled with the lower-than-expected sales due to production halts and subdued ferro alloy realisations, widened the operating losses to Rs. 8.7 crore in 9M FY2025 against Rs. 3.6 crore in FY2024.

Exposure to regulatory risks associated with raw material availability and operational disruptions due to potential plant shutdown following directives from the Pollution Control Board – ICRA notes that SCFL remains exposed to regulatory risks that could impact the raw material availability and operations. Industries in Meghalaya have faced challenges due to government policy changes, including past restrictions on coal mining and movement. In FY2025, the production was disrupted by directives from the Pollution Control Board (PCB), following Byrnihat's classification as a highly polluted area. This led to plant shutdown for ~70 days, affecting the overall operations.

Small scale of operations; captive power plant remains unutilised from FY2020 due to bottlenecks in coal availability in Meghalaya – The small scale of operations makes SCFL vulnerable to periods of sustained industry downturns. Its modest scale is also a function of its moderate capacity utilisation of 60-70% over the last five years. The company is unable to utilise its 14-MW captive power plant under Meghalaya Power Limited (MPL) due to constraints faced in coal availability in Meghalaya after the ban on coal movement in the state from FY2020 and subsequent elevated prices of coal, making it more expensive to produce power captively against procurement from the grid. However, if adequate coal is available at a competitive rate, the company would be able to operate the power plant and will become largely self-sufficient in its power requirements.

Competitive pressure from imports from Bhutan due to access to cheaper hydropower – SCFL faces competition from Bhutanese imports, as producers there benefit from significantly lower hydropower costs (~Rs. 3.4/unit against Rs. 5.8/unit for SCFL). This puts Indian manufacturers, including SCFL, at an inferior cost position, adversely impacting the overall competitiveness and profitability.

Susceptible to volatility in raw material prices - Raw materials account for about ~37% of the company's operating costs. Low ash metallurgical (LAM) coke is the major raw material used by the company and has exhibited volatility in the recent past. The company's profitability, thus, remains vulnerable to the fluctuations in raw material prices, given its limited ability to pass on the price variation to its end customers.

Environment and Social Risks

Environmental considerations – Ferro-alloy manufacturing is an energy-intensive process and requires a substantial use of fossil fuels (scope 1 emissions) and power (scope 2 emissions), which results in greenhouse gas emissions, industrial waste generation and environmental pollution. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may result in higher costs for ferro-alloy manufacturers in the medium term. SCFL has progressively taken steps towards the conservation of energy and technical absorption, like cooling tower hot basin modification work to arrest the water leakage. These measures partly mitigate the risk of non-compliance with the applicable environmental laws and ensure business continuity. Further, SCFL faces the risk of physical climate change from rainfall in the form of disruption in the availability of raw materials, like coke and coal.

Social considerations – Social risks for ferro-alloy manufacturers manifest from the health and safety concerns of employees involved in the manufacturing activity. Casualties/accidents at operating units due to gaps in safety practices could not only result in production outages for ferro alloy manufacturers but also invite penal actions from regulatory bodies. The sector is exposed to labour-related risks and risks of protests/social issues with local communities, which might impact its expansion/modernisation plans. Also, the adverse impact of environmental pollution in nearby localities could trigger local criticism. During FY2024, the company spent Rs. 7.6 crore towards its Corporate Social Responsibility (CSR) initiatives. This included the distribution of medicines under the Pradhan Mantri TB Mukt Yojana, along with contributions towards promoting education and the development of schools.

Liquidity position: Strong

SCFL's liquidity position is strong with sufficient undrawn limits and a sizeable cash & liquid investment position. The average monthly utilisation of the fund-based working capital limits was ~24% from April 2024 to February 2025, giving sufficient headroom to meet their working capital requirements. The company has no long-term debt service obligations, which further strengthen its liquidity profile. In addition, the company had free cash and liquid investment balance of Rs. 80.25 crore as on March 27, 2025, thus strengthening its on-balance sheet liquidity position.

Rating sensitivities

Positive factors –A rating upgrade is unlikely, given the Negative outlook. ICRA may revise the outlook to Stable if SCFL is able to improve the profitability levels meaningfully while maintaining its comfortable liquidity profile.

Negative factors – A sustained period of loss-making operations could result in a downgrade. Moreover, a significant debt-funded capex, leading to a deterioration in the debt protection metrics, or a material deterioration in the liquidity position would exert pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of SCFL. The company did not have any subsidiary, associate or joint venture as on March 31, 2024

About the company

Shyam Century Ferrous Limited (SCFL) was incorporated in 2011. It was a dormant company till April 1, 2014, before the ferro alloy business, including a 48.8% shareholding in Meghalaya Power Ltd. (MPL, operating a 43-MW thermal power plant), was transferred from Star Ferro and Cement Limited, under a scheme of demerger approved by the High Court of Meghalaya in Shillong on March 31, 2015, effective from April 01, 2014. Star Ferro and Cement Limited earlier used to house the ferro alloy, power, and cement businesses. SCFL manufactures ferrosilicon with a total capacity of 21,600 MTPA and has a captive power plant of 14 MW (currently non-operational) in Meghalaya.

Key financial indicators (audited)

SCFL Standalone	FY2023	FY2024	9M FY2025*
Operating income	181.0	138.1	91.0
PAT	26.6	0.7	-4.9
OPBDIT/OI	18.3%	-2.6%	-9.6%
PAT/OI	14.7%	0.5%	-5.4%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	NA
Total debt/OPBDIT (times)	0.1	-0.7	NA
Interest coverage (times)	95.9	-12.4	-51.7

*Source: Company, ICRA Research; *Results; 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	Current (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Apr 09, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Working capital	Long term	26.00	[ICRA]BBB+ (Negative)	Aug 22, 2024	[ICRA]BBB+ (Negative)	Dec 12, 2023	[ICRA]BBB+ (Stable)	Oct 31, 2022	[ICRA]BBB+ (Stable)
Non-fund based – Letter of credit	Short term	8.00	[ICRA]A2+	Aug 22, 2024	[ICRA]A2+	Dec 12, 2023	[ICRA]A2+	Oct 31, 2022	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund-based - Working capital	Simple
Short term non-fund based - Letter of credit	Very Simple

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	**Fund-based - Working capital**	NA	NA	NA	24.00	[ICRA]BBB+ (Negative)
NA	**Non-fund based - Letter of credit**	NA	NA	NA	10.00	[ICRA]A2+

Source: Company

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

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