

July 07, 2017

Shyam Ferro Alloys Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based facilities	126.00	[ICRA]A-(Stable) / reaffirmed
Long-term Unallocated limits	20.00	[ICRA]A-(Stable) / reaffirmed
Non Fund-based facilities	244.20	[ICRA]A2+ reaffirmed
Short-term Unallocated limits	1.80	[ICRA]A2+ reaffirmed

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus)¹ to the Rs. 126.00-crore² fund-based facilities and Rs. 20.00-core long-term unallocated limits of Shyam Ferro Alloys Limited (SFAL). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 244.20-crore non-fund based facilities and Rs. 1.80-crore short-term unallocated limits of the company.

Rationale

The rating action reflects the steady performance of the company in FY2016 and FY2017 and its established position in the domestic ferro-alloys industry, particularly after its successful foray into niche products like medium and low-carbon ferro alloys. The ratings also factor in SFAL's position as a company supplying ferro alloys to leading domestic and international steel producers and the flexibility of operations to change the share of production of different ferro alloys depending on market conditions. SFAL's capital structure remains conservative and the liquidity profile continues to be comfortable with substantial liquid investments. The ratings are, however, constrained by the company's thin profit margins, given their non-integrated nature of operations, which has also led to subdued returns on capital employed. In addition, the company is exposed to the cyclical nature inherent in the steel industry, which kept profitability and cash flows volatile. ICRA, however, notes that entry into niche products and conversion agreement with Tata Steel Ltd., which accounts for a sizeable portion of the installed capacity, limits the extent of such volatility. The absence of any captive sources of raw materials exposes the company's profits to fluctuations in raw material prices relative to ferro-alloy prices. Also SFAL's dependence on imports for procuring key raw materials exposes it to foreign currency fluctuation risks, which is mitigated by its export sales, providing a natural hedge to some extent, and a defined hedging mechanism. Notwithstanding such risks, ICRA expects SFAL's cash accruals to be adequate relative to its debt-servicing obligations, supported by absence of any long-term debt repayment obligation, and healthy liquidity profile.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- Established position in the ferro-alloys industry
- Flexibility of changing product mix depending on market conditions
- Conservative capital structure
- Comfortable liquidity profile

Credit weaknesses

- Low operating and net profit margins
- Lack of vertical integration
- Exposure to foreign currency risks, however it is mitigated to some extent by exports which provides a natural hedge
- Exposure to cyclical nature of the steel industry

Description of key rating drivers highlighted above:

SFAL has an established position in the ferro-alloy industry with a track record of around two decades. In the recent past, SFAL has forayed into the production of niche products, like medium carbon and low-carbon ferro alloys, which earn a significant premium over high-carbon ferro alloys, thereby providing some cushion against volatility in prices. Manganese alloys are used in alloy steelmaking, while ferro chrome is used in the production of stainless steel, which exposes the company to the cyclical nature inherent in the steel industry. The company has a total of ten furnaces, five each at its units at Burdwan and Durgapur, which gives the company substantial flexibility to align the product mix depending on the market demand. However, the lack of vertical integration exposes the company to the fluctuation in raw material prices, thereby leading to an adverse cost structure relative to other integrated players. SFAL undertakes contract manufacturing for Tata Steel for supplying low-carbon ferro alloys, which accounts for a significant share of its installed capacity, and thus partially insulates the company from the volatility in prices. The company is primarily dependant on imports for procuring key raw materials like manganese ore, coke, thermal coal, which exposes it to foreign currency fluctuation risk. However, the risk is mitigated to some extent by export sales, which provides a natural hedge, and a defined hedging mechanism followed by the company. Given the power-intensive nature of operations, the competitive tariff rates enjoyed by SFAL from Durgapur Projects Limited and Damodar Valley Corporation result in the company having a favourable cost structure compared to other non-integrated ferro alloy producers.

SFAL is exposed to the cyclical nature of the steel industry. Difficult operating environment for steel players in FY2016 had resulted in a sharp correction in prices of both high-carbon ferro alloys and stainless steel, which in turn adversely impacted the operating income. However, in the near term, SFAL's operating income is likely to increase on the back of higher ferro alloy realisations. Nonetheless, its profitability is likely to remain in line with that in the previous year on account of an increase in raw material prices. The company has a conservative capital structure as reflected by its low gearing levels, with debt comprising only working capital facilities. SFAL has a comfortable liquidity profile, characterised by a moderate utilisation of bank limits, as well as a healthy cash and investment balance on the company's books as on March 31, 2016. Given the limited capital expenditure plans, which is expected to be funded from internal accruals, SFAL's capital structure and debt coverage indicators are likely to remain comfortable, going forward.



Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Primary Non Ferrous Metals Manufacturers](#)

About the company:

Shyam Ferro Alloys Limited is a closely-held company, incorporated in 1995. It produces manganese-based ferro alloys and stainless steel flats. Among ferro alloys, in addition to ferro manganese and silico manganese, it produces ferro chrome, mainly for internal consumption in the stainless steel production. It has two plants located at Burdwan and Durgapur in West Bengal.

As per the provisional results, in 9MFY2017, SFAL posted a profit after tax (PAT) of Rs. 5.20 crore on an operating income of Rs. 557.30 crore. During FY2016, the company posted a PAT of Rs. 7.08 crore on an operating income of Rs. 765.93 crore compared to a PAT of Rs. 7.30 crore on an operating income of Rs. 838.82 crore during FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month- year & Rating in FY2016	Month-year & Rating in FY2015
				July 2017	February 2017	December 2015	August 2014
1	Fund-based facilities	Long Term	126.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Long-term Unallocated limits	Long Term	20.00	[ICRA]A-(Stable)			
3	Non Fund-based facilities	Short Term	244.20	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Short-term Unallocated limits	Short Term	1.80	[ICRA]A-(Stable)			

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	126.00	[ICRA]A- (Stable)
Long-term unallocated limits	-	-	-	20.00	[ICRA]A- (Stable)
Letter of Credit	-	-	-	225.00	[ICRA]A2+
Bank Guarantee	-	-	-	15.00	[ICRA]A2+
Credit Exposure Limit	-	-	-	4.20	[ICRA]A2+
Short-term unallocated limits	-	-	-	1.80	[ICRA]A2+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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