July 08, 2021

Shyam Century Ferrous Limited: [ICRA]BBB+ (Stable)/ [ICRA]A2+ Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Working Capital	30.00	[ICRA]BBB+ (Stable); assigned
Short Term Non-Fund Based	4.00	[ICRA]A2+ assigned
Total	**34.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings of Shyam Century Ferrous Limited (SCFL) favourably takes into account the company's healthy earnings growth in FY2021, led by a pick-up in demand and rising steel prices. The steel industry witnessed a sharp rebound last fiscal, benefitting ferrosilicon producers, in turn leading to a significant improvement in the company's turnover and profit margins in FY2021. Additionally, ICRA believes that SCFL's margin outlook for FY2022 remains buoyant, supported by steel prices reaching all-time high levels, which in turn has led to ferrosilicon prices touching new highs as well. The company's credit metrics remain healthy, as indicated by its net debt free status as on March 31, 2021 and total debt to OPBITDA of 0.4 times in FY2021. In addition, the significant improvement in profits last fiscal has aided SCFL to channelize its free cash flows to strengthen its balance sheet liquidity. Consequently, SCFL's liquidity profile remains strong, supported by a significant headroom available in the form of undrawn limits of working capital and sizeable cash and liquid investments. Further, the availability of power from the State Discom at an attractive tariff supports cost competitiveness of the company. The rating also factors in the financial flexibility enjoyed by SCFL as reflected by its ability to raise funds at competitive interest rates.

The rating, is, however, constrained due to the company's exposure to the inherent cyclicality of the steel industry leading to volatility in the revenue and profitability indicators. Additionally, the company's scale of operations is modest and faces increased competitive intensity which accentuates margin volatility. However, ICRA notes that given the rally in steel prices over the past one year the company has seen a significant increase in profits in FY2021. ICRA also notes that many industries based out of Meghalaya, including SCFL remains exposed to regulatory risks as any unfavourable change in the Government policy may impact its raw material availability, especially for coke and coal. Moderate capacity utilization levels of SCFL's ferrosilicon furnaces and idled captive power plant due to bottlenecks in coal availability in Meghalaya has constrained return on capital indicators. The ratings are also tempered by the company high customer concentration risk. Nevertheless, its established and reputed customer base, and policy of supplying against payment security mitigates counterparty credit risks to a large extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the favourable operating environment, which should support a healthy growth in earnings in FY2022 as well. ICRA believes that the financial risk profile would remain comfortable, supported by low external borrowings, comfortable capital structure, and sizeable liquidity.

Key rating drivers and their description

Credit strengths

Significant improvement in turnover and profitability margins in FY2021; healthy earnings growth expected in FY2022 as well as steel sector witnesses a strong recovery post the pandemic outbreak – The company has a significant improvement in its turnover as well as profitability margins in FY2021. The company's operating income (OI) improved from Rs 87 crore in FY2020 to Rs 128 crore in FY2021, the operating margins improved from 0.8% in FY2020 to 10.3% in FY2021 on the back of improving realisations of ferrosilicon led by the strong steel demand recovery post the pandemic outbreak. SCFL has also sold its 48.8% equity stake in Meghalaya Power Limited during FY2021 which resulted in inflows of Rs. 40.1 crore, including a one-time capital gain of ~Rs 6.4 crore. However, the company has recorded an extraordinary loss to the tune of Rs ~17.2 crore in FY2021, which pertains to the adverse Court ruling on excise duty refunds, and this has limited the net profit expansion in FY2021. Additionally, ICRA believes that the margin outlook for FY2022 remains buoyant, supported by ferrosilicon prices reaching new highs.

Availability of power from the State Discom at an attractive tariff supports cost competitiveness– The company is currently able to procure power at a favourable rate of ~Rs 4.7 per unit from Meghalaya Power Distribution Corporation Limited, and this is lower than the company's cost of generation from captive power plant. ICRA notes that with power accounting for ~45% of SCFL's cost of production, access to power at an affordable tariff remains a source of competitiveness. ICRA observes that the company's power tariff for FY2022 has been fixed at a similar level as FY2021 and this is expected to keep its operating cost under check in the current fiscal. However, any sharp rise in power tariff in FY2023 and beyond would be a key credit monitorable.

Comfortable capital structure and debt coverage indicators – The significant improvement in profits last fiscal has aided SCFL to turn net debt free, the company is currently only sparing utilising its working capital limits. This has led to a comfortable financial risk profile, characterised by healthy TOL/TNW[1] of 0.1 times as on March 31, 2021. This apart, the other coverage indicators stood healthy with Total Debt/OPBDITA of 0.4 times and interest coverage of 16.5 times as on March 31, 2021. Given a healthy earnings growth outlook following the ferrosilicon price rally, the coverage indicators are expected to improve significantly in FY2022 as well.

Strong liquidity – The company's liquidity is strong supported by significant headroom in undrawn working capital limits and sizeable cash and liquid investments. As of end March 2021, the company has undrawn working capital facilities of ~Rs 27 crore as well as cash and liquid investments to the tune of ~Rs 62 crore.

Favourable demand outlook for the steel industry – The steel sector witnessed a V-shaped recovery following Unlock 1.0 in India after significant contraction in FY2020 and further aggravated in Q1 FY2021 by the pandemic. The domestic steel prices have increased significantly from H2 FY2021 onwards and touched all-time high levels in early FY2022, driven by the spurt in global steel prices. ICRA believes that the significant improvement in steel demand and realisations will auger well for ferrosilicon prices, and result in a considerable growth in the company's revenue, profits and cash accrual in the current fiscal.

Experienced promoter and management team – SCFL, has an experienced promoter and management team. The operations are jointly overseen by the Bhajanka and Agarwal families, who are the promoters of Century Plyboards (India) Limited and Star Cement Limited.

Credit challenges

Exposure to regulatory risks associated with raw material availability – ICRA notes that many industries based out of Meghalaya, including SCFL remains exposed to regulatory risks as any unfavourable change in the Government policy may impact its raw material availability, **especially for coke and coal. In the past, ICRA notes that coal/ coke consumers in Meghalaya have encountered operational challenges associated with the banning of coal mining and restrictions on coal movement in the State.** SCFL sources coke locally from Meghalaya based suppliers, and any adverse ruling which adversely impacts coke availability in Meghalaya could lead to input cost pressures for Meghalaya based coke consumers, including SCFL. Moreover, it is seen that SCFL's specific consumption of coke has been steadily increasing in the past few years, which indicates deteriorating quality.

[1] Total outside liability to tangible net worth

With coke accounting for ~30% of the overall cost of producing ferrosilicon, this deterioration in coke quality has led to an overall escalation in input costs for SCFL.

Company's scale of operations is modest coupled with moderate capacity utilization levels – The company's scale of operations is modest, as evidenced by the turnover being in the range of Rs 87 crore to Rs 133 crore between FY2017 and FY2021. SCFL's modest scale is also a function of its moderate capacity utilisation over the last five years, ranging between 51% and 70%. However, ICRA notes that with the FY2022 demand for steel improving further, SCFL's capacity utilisation levels are expected to reach their highest level in recent years.

Customer concentration risk - SCFL is exposed to customer concentration risk as ~79% of its total sale in FY2021 was contributed by its top ten customers. Therefore, any disruption in the operations of the key clientele will adversely impact the company's revenues. Nevertheless, its established and reputed customer base, and policy of supplying against payment security mitigates counterparty credit risks to a large extent.

Exposure to cyclicality inherent in steel industry – The steel industry is cyclical in nature, which is likely to result in volatile cash flows for ferroalloy players, including SCFL. Nevertheless, the company's efficient cost structure emanating from its modest access to power at an attractive tariff partly reduces the susceptibility of its profitability to downturns in the steel industry.

Liquidity position: Strong

SCFL's liquidity position is **strong** with healthy cash flows and sufficient undrawn limits. The average monthly utilisation of fund-based working capital limits stood moderate at 2% during February 2020 to May 2021. The free cash flows were positive in FY2021, and ICRA expects free cash flows to remain positive in FY2022 as well. The company has limited repayment obligation, which would be comfortably covered by the free cash flows generated going forward. In addition, the free cash balance and liquid investments stood at Rs. 62 crore as on March 31, 2021.

Rating sensitivities

Positive factors – Significant improvement in the scale of operations while maintaining healthy profit margins and liquidity profile will be a positive trigger for the company.

Negative factors – Any adverse regulatory development constraining the availability of key input materials or a sharp rise in power costs would be negative for the ratings; moreover, significant debt-funded capex or drop in earnings leading to deterioration in debt protection metrics, and/or any deterioration in the liquidity position will exert negative rating pressure. Specific credit metric that would put pressure on the ratings would be a debt/OPBITDA of more than 2.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of SCFL. The company does not have any subsidiary or joint venture as on March 31, 2021.

About the company

Shyam Century Ferrous Limited (SCFL) was incorporated in 2011. It was a dormant company till April 01, 2014 before the transfer of ferro alloy business including 48.8% shareholding in Meghalaya Power Ltd. (MPL, operating a 43 MW thermal power plant) from Star Ferro and Cement Limited (which earlier used to house the ferro alloy, power, and cement businesses), as per the scheme of demerger approved by the Hon'ble High Court of Meghalaya at Shillong dated Mar 31, 2015 effective from Apr 01, 2014. The promoters of company are Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. The main companies promoted by them are Century Plyboards (I) Ltd. & Star Cement Ltd (formerly Cement Manufacturing Company Ltd). SCFL is engaged in manufacturing of Ferro Silicon with a total capacity of 21,600 Metric tonnes per annum (MTPA) and has a captive power plant of 14 MW (currently non-operational) at Meghalaya.

Key financial indicators (Standalone)

SCFL (Standalone)	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	133.3	87.3	127.6
PAT (Rs. crore)	10.5	0.0	2.8
OPBDIT/OI (%)	13.3%	0.8%	10.3%
PAT/OI (%)	7.9%	0.0%	2.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1	0.1
Total Debt/OPBDIT (times)	0.2	3.5	0.4
Interest Coverage (times)	13.7	1.7	16.5

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 Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					8-July-2021	-	-	-
1	Working Capital	Long Term	30.00	3.00	[ICRA]BBB+ (Stable)	-	-	-
2	Bank Guarantee	Short Term	4.00	-	[ICRA]A2+			

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term-Fund Based-Working Capital	Simple
Short Term Non Fund Based	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate*	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital	-	-	-	30.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	4.00	[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
	Not Applicable

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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.

For more information, visit www.icra.in

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