SEL™

SMEL/SE/2021-22/24

October 06, 2021

The Secretary, Listing Department	The Manager – Listing Department
BSE Limited PhirozeJeejeebhoy Towers Dalal Street Mumbai 400 001 Maharashtra, India Scrip Code: **543299**	**National Stock Exchange of India Limited** "Exchange Plaza", 5th Floor, Plot No. C/1, G Block,Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 Maharashtra, India Symbol: **SHYAMMETL**

Dear Sir/Madam,

Sub:**Update on Credit Rating by Care Ratings**.

Pursuant to Regulation 30 of the SEBI (LODR) Regulations, 2015, we wish to inform you that CARE RATINGS has assigned/reaffirmed the ratings of the Company.

- **CARE AA-; Positive (Reaffirmed; Outlook revised from Stable) for Long-term Bank facilities.**
- **CARE A1+ (Reaffirmed) for Short-term Bank facilities.**
- **CARE A1+ (Reaffirmed) for Commercial Paper**

Outlook: Positive

The revision in the outlook for long-term ratings reflects CARE Rating's belief that the consolidated operating performance of the company would improve further backed by growing volumes and favourable realizations amid strong industry upcycle. This apart, the group is also expected to maintain its net debt free position with proceeds of IPO utilized towards reduction of working capital borrowings and no major debt draw down envisaged. The outlook may be revised to stable if there is a moderation in operating performance or higher than envisaged debt is availed to fund capex or growing working capital needs.

The copy of the Credit Rating Report issued by CARE is attached along with the intimation.

The above information will also be made available on the website of the Company at www.shyammetalics.com.

This is for your information and records.

Thanking You,
For **SHYAM METALICS AND ENERGY LIMITED**

SHYAM METALICS AND ENERGY LIMITED Kolkata

Birendra Kumar Jain
Company Secretary

Encl: As Above

Shyam Metalics and Energy Limited
October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	257.41 (Reduced from 341.37)	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	329.00 (Enhanced from 289.00)	CARE A1+ (A One Plus)	Reaffirmed
Short-term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**586.41 (Rs. Five hundred eighty six crore and forty one lakh only)**		
Commercial Paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**50.00 (Rs. Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities/debt instruments of Shyam Metalics and Energy Limited (SMEL) continues to factor in the experience and long track record of the promoters in the iron and steel industry, the company's semi-integrated nature of operations with strategically located plants in proximity to coal and iron ore mines, and healthy operational performance on the back of favourable sales realizations. The ratings also factor in sizeable deleveraging supported by funds raised through Initial Public Offering (IPO) and healthy cash accruals generated in the recent quarters leading to comfortable financial risk profile with a net debt-free status as on August 31, 2021, and a strong liquidity position. The ratings also take cognizance of the announcement of brownfield expansion projects at Sambalpur, Odisha, Jamuria and Pakuria, West Bengal to establish new ductile pipe plant, blast furnace and aluminium foil rolling mill, besides expansion of existing product capacity, at an estimated outlay of close to Rs.3,000 crore. Going ahead, with ramp up of operations, CARE Ratings believes that Shyam Metalics group will continue to report steady growth in the revenues in medium term along with healthy operating margins owing to management's intent to enhance the sales contribution from high value-added products of Thermomechanical treatment (TMT) bars, Wire Rods, Ductile Iron (DI) Pipes, structural products, conversion of aluminium foil, and ferro alloys. Moreover, leverage is expected to remain comfortable as capex plans are modular in nature and internal accruals of the group shall be sufficient to fund capex and incremental working capital requirements. The ratings, however, remain constrained by the group's exposure to the cyclicality inherent in steel industry and susceptibility of the operating margins to volatility in input costs.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained growth in the scale of operations with improvement return on capital employed (ROCE) above 25% on a sustained basis.
- Sustained reduction in operating cycle to less than 70 days and ability of the group to maintain a strong liquidity position
- Improvement in overall gearing below 0.20x and total debt/PBILDT remaining below unity on a sustained basis.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Negative Factors - ***Factors that could lead to negative rating action/downgrade:***

- Decline in total operating income below Rs. 8000 crore and ROCE below 17% on sustained basis.
- Deterioration in overall gearing beyond 0.50x and total debt/PBILDT beyond 1.2x.
- Decline in free cash and liquid investment below Rs.200 crore on sustained basis.

Outlook: Positive

The revision in the outlook for long-term ratings reflects CARE Rating's belief that the consolidated operating performance of the company would improve further backed by growing volumes and favourable realizations amid strong industry upcycle. This apart, the group is also expected to maintain its net debt free position with proceeds of IPO utilized towards reduction of working capital borrowings and no major debt draw down envisaged. The outlook may be revised to stable if there is a moderation in operating performance or higher than envisaged debt is availed to fund capex or growing working capital needs.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong track record of operation: SMEL and its key subsidiary, Shyam SEL & Power Limited (SSPL) (collectively called as 'Shyam Metalics Group), promoted by Mr Mahabir Prasad Agarwal, started trading of steel products in 1981. In 1991, the group ventured into manufacturing of steel products and commenced production of billets in 1996. Over the years, the group has expanded its steel manufacturing operation by integrating its operation by adding products across the value chain of long steel products. Mr Agarwal is responsible for strategic planning and overall administration of the group. Mr Brij Bhushan Agarwal (son of Mr Mahabir Prasad Agarwal) is responsible for looking after future expansion, business development strategy, marketing and other corporate affairs of the company. Furthermore, the group is supported by senior management team having average metal industry experience of more than a decade.

Semi-integrated nature of operations: The manufacturing operations of Shyam Metalics Group are semi-integrated having manufacturing facilities of both intermediate products (backward integration) like pellets, sponge iron, billets and value-added end products like TMT bars, Wire Rods and structural for the end-user segment. The group also has coal washery along with captive power plant and waste heat recovery unit which enable cost efficiencies across the value chain. The group has sufficient captive power capacity to meet the power requirements of the plant. In the current expansion plan, the group has proposed to introduce new product of DI pipes, which will also be integrated with set up of pig iron facility. The commissioning of said capacities will further expand the footprint of the company in the overall steel industry. The revenue stream of the group continues to remain diversified with top ten customers contributing nearly 23% of the total revenue in FY21 (refers to the period April 1 to March 31) with no single customer contributing more than 4% of the revenues.

Location advantages and raw material linkages: The iron and steel manufacturing facilities of the group (in Sambhalpur, Odisha, Jamuria and Mangalpur, West Bengal) are located in proximity to the sources of key raw materials, iron ore and coal, which lead to low landed cost of the raw materials. Furthermore, own captive railway sidings in Sambhalpur and Jamuria plants, also support saving in freight and overall procurement cost. The group has long-term linkages with Odisha Mining Corporation Limited for Chrome ore and Mahanadi Coalfields Limited, Central Coalfield Limited, and South Eastern Coalfields for Coal. Long-term linkages and strong relations with suppliers ensure raw material security to certain extent.

Diversified product mix with satisfactory operational efficiency: The group has a diversified product mix with multiple points of sale across the value chain including pellets, sponge iron, billets, TMT bars, Wire Rods and structural products as well as ferro alloys. TMT, Wire Rods and structural products contributed around 36% of overall revenue in FY21, while pellets contributed around 24% of the overall revenues. Other products such as ferro alloys, sponge iron and billets contributed in the range of 10%-15%. The scale of operations and product diversification is expected to increase further in the medium term with the ongoing expansion in the manufacturing facilities of the group. The overall capacity utilization of the group continued to remain healthy over the last three fiscals (FY19-FY21) with pellets plant operating beyond 100% capacity. The company is further expanding its pellet capacity by 1.2 MT which will mostly be utilized captively in line with enhancement in the capacity of other integrated and value-added products. Furthermore, with buoyant demand, the pellet plant of the group is expected to continue to operate at healthy utilization levels. Utilization levels for Billets stood at 94% during FY21, while utilization levels for other products (rolled products, ferro alloys, sponge iron) also remained healthy at close to 80%.

Strong operational performance: During FY21, the consolidated total operating income improved significantly by 44% y-o-y on the back of higher sales volume by 35% and better sales realizations by 7%. Owing to favourable steel and ferro alloy prices, coupled with relatively higher proportion of sales of rolled products, the average blended sales realization increased from Rs.18,801/tonne to Rs.20,182/tonne. The average blended sales realization in Q1FY22 further grew to Rs.29,014/tonne. PBILDT margin improved to 22.34% in FY21 from 15.24% in FY20, due to better spread on the back of high steel prices and fairly stable prices of raw materials. PBILDT margin further improved to 27.89% in Q1FY22. The consolidated PAT margin of SMEL also improved significantly from 7.81% in FY20 to 13.41% in FY21 on account of reduced interest expense in line with the reduction in total debt.

Comfortable financial risk profile: The overall gearing and debt equity ratio improved to 0.29x and 0.04x as on March 31, 2021 from 0.48x and 0.15x as on March 31, 2020, respectively, on the back of reduction in term debt coupled with the accretion of profits to the net worth. During the current fiscal, the company raised around Rs.657 crore through fresh issue of shares by way of IPO. Such proceeds from IPO were utilized towards further reduction of its working capital borrowings. Accordingly, overall gearing and debt to equity ratio has further improved to 0.12x and 0.02x as on June 30, 2021. Owing to generation of healthy cash accruals coupled with proceeds from IPO, the liquidity position of the company has also improved significantly and the company stands net debt free as on August 31, 2021. The interest coverage ratio improved from 7.80x in FY20 to 22.67x in FY21 on the back of healthy operating profit and reduced interest expense in line with the reduction in term debt. Total debt/PBILDT also improved significantly from 2.02x as on March 31, 2020 to 0.75x as on March 31, 2021.

Key Rating Weaknesses

Profitability susceptible to volatility in the raw-material prices: The raw material is the largest component of the total cost of sales of steel products, accounting for 76% in FY21 (73% in FY20). The major raw materials used by the group are iron ore fines, coal, pig iron, manganese ore, and coke, etc., which have shown volatile price trend in the past. Given that raw material forms major cost component of the total cost of sales and the prices of which are volatile in nature, the profitability is susceptible to fluctuation in raw-material prices. Any sharp variation in the raw material prices may adversely impact the margins of the company. However, the group has been able to maintain operating margins broadly in the range of 15% to 20% due to flexibility in operations supported by its sizable presence on iron and steel value chain.

Cyclical nature of steel industry: The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion impact the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel and related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Risks associated with ongoing expansion plan: The group has major expansion plans and such capex is proposed to be executed in phased manner and will be commissioned by FY25. Accordingly, the aggregate installed capacity of the company is expected to increase from 5.71MT to 11.60MT. While steel product capacity is expected to increase from 3.10 MT to 7.77MT. This apart, the group is also in the process of commissioning aluminium foil roll mill. Accordingly, the group is expected to have outlay of close to Rs.2,000 crore (excluding around Rs. 1000 already incurred) on the expansion projects over the next 4 years. Majority of the capex is proposed to be funded through internal cash accrual. Only a minimal debt of around Rs.160 crore (5% of the total capex) is being availed for the procurement of machinery for the conversion of aluminium foil. Timely ramp-up of the facilities and realizations of envisaged benefits from enhanced capacities will remain crucial from the credit perspective.

Industry Outlook: Chinese government's policy to cap 2021 steel production below 2020 is expected to keep China's steel supplies lower in the second half of 2021. Accordingly, China's exports of finished and semi-finished steel products are expected to decline in 2021 compared with 2020, while imports will increase in line with Beijing's plan. This will give opportunity to Indian steel mills to scale up exports and expand to newer markets in FY22. Higher coking coal prices, lower supply from China and higher global demand backed by global stimulus measures should keep steel inventories low and prices firm in FY22. Also, domestic steel prices have remained at a sharp 15%-20% discount to international steel prices over the past year and it still continues to remain at a sharp 15% discount to landed steel prices which is also supporting domestic steel prices. Domestic steel demand was impacted by the second wave of the Covid-19 pandemic and the seasonally weak September quarter due to the monsoon season. However, demand is expected to improve sequentially once the festive season begins. Finished steel consumption is expected to cross 100 million tonnes in FY22 as against 93.4 million tonnes in FY21. Domestic crude steel production is up 35.8% y-o-y during the first five months of FY22 and is well on path to achieve the 9%-11% forecasted growth during the whole FY22 compared with FY21.

Liquidity: Strong.
The liquidity position of the group remains strong with expected cash accruals of Rs.1,615 crore vis-à-vis debt repayments of around Rs.4.05 crore and estimated capital outlay through internal accruals of around Rs.1,058 crore in FY22. Furthermore, average fund-based working capital utilization at around 60% for SSPL and 56% for SMEL for the past 12 months ended June 2021 and around 20% to 30% in past three months ended September 2021, indicates availability of satisfactory buffer in the form of unutilized credit lines. The liquidity is further supported by cash & liquid investments of around Rs.539 crore approximately as on March 31, 2021, which improved to around Rs.1,149 crore as on August 31, 2021.

Analytical approach: Consolidated.
While arriving at the rating, consolidated financials of Shyam Metalics & Energy Ltd (SMEL) have been considered which includes Shyam Sel & Power Limited (SSPL: wholly-owned subsidiary) and eleven other subsidiaries and step-down subsidiaries, three associates and two joint ventures (JVs) which are mainly investment companies with no major operations. Both SSPL and SMEL are engaged in similar business under common management and exhibit operational linkages and cash flow fungibility.
The list of entities whose financials has been consolidated are mentioned under Annexure 5.

Applicable Criteria
Criteria on assigning Outlook & Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology : Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Steel Industry

[Rating Methodology-Consolidation]
[Rating Methodology- Parent Sub JV group]

About the Company

The Shyam Metalics group is promoted by Kolkata-based Mr Mahabir Prasad Agarwal and is mainly engaged in manufacturing of iron & steel products and ferro alloys. The group started with trading of steel products in 1981 and ventured into manufacturing of steel products through Shyam Sel and Power Ltd (SSPL) in 1991. Over the years, SSPL integrated its operation by adding products/facilities across the value chain of long steel products (i.e., ferro alloys, pellet, sponge iron, billet, TMT bars/Structural products and captive power plant). SSPL's manufacturing facility is located in Burdwan district of West Bengal.

The group expanded its operation in Odisha through Shyam Metalics & Energy Ltd (SMEL). SMEL is semi-integrated and has manufacturing facilities for ferro alloys, pellet, sponge iron, billet, TMT bars/structural products. Furthermore, both SSPL and SMEL have their own railway sidings.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	4393.17	6337.37	2465.03
PBILDT	669.51	1415.71	687.63
PAT	340.25	843.54	458.01
Overall gearing (times)	0.48	0.29	0.12
Interest coverage (times)	7.80	22.67	102.48

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	240.00	CARE AA-; Positive
Non-fund-based - ST-BG/LC		-	-	-	329.00	CARE A1+
Fund-based - LT-Term Loan		-	-	March, 2022	4.41	CARE AA-; Positive
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Non-fund-based - LT-Bank Guarantees		-	-	-	13.00	CARE AA-; Positive
Commercial Paper-Commercial Paper (Carved out)	-	-	-	-	50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash	LT	240.00	CARE	-	1)CARE AA-;	1)CARE A+;	1)CARE A+;

	Credit			AA-; Positive		Stable (17-Dec-20)	Stable (10-Oct-19)	Stable (05-Oct-18)
2	Non-fund-based - ST-BG/LC	ST	329.00	CARE A1+	-	1)CARE A1+ (17-Dec-20)	1)CARE A1+ (10-Oct-19)	1)CARE A1+ (05-Oct-18)
3	Fund-based - LT-Term Loan	LT	4.41	CARE AA-; Positive	-	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)
4	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)	1)CARE A+; Stable (05-Oct-18)
5	Non-fund-based - LT-Bank Guarantees	LT	13.00	CARE AA-; Positive	-	1)CARE AA-; Stable (17-Dec-20)	1)CARE A+; Stable (10-Oct-19)	-
6	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (17-Dec-20)	1)CARE A1+ (06-Mar-20)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - LT-Bank Guarantees	Simple
5	Non-fund-based - ST-BG/LC	-
6	Non-fund-based - ST-BG/LC	Simple

Annexure 5: ***List of entities forming part of consolidated financials (as on March 31, 2021)***

Sl No	Name of the company	Relationship	% holding
1	Shyam Sel & Power Ltd	Subsidiary	100.00
2	Damodar Aluminium Private Limited	Subsidiary	54.15
3	Singhbhum Steel & Power Ltd	Subsidiary	91.45
4	Renaissance Hydropower Private Ltd	Subsidiary	100.00
6	Kalinga Infra Projects Limited	Subsidiary	90.00
7	Whispering Developers (P) Ltd	Step-down Subsidiary	67.57
8	Taurus Estates (P) Ltd	Step-down Subsidiary	89.29
9	Shyam Energy Limited	Step-down Subsidiary	86.46
10	Meadow Housing Private Limited	Step-down Subsidiary	99.05
11	Hrashva Storage & Warehousing (P) Limited	Step-down Subsidiary	100.00
12	Shree Sikhar Iron & Steel (P) Limited	Step-down Subsidiary	100.00
13	Nirjhar Commodities (P) Limited	Step-down Subsidiary	58.00
14	Keeons Tradecare (P) Limited	Associate	47.32
15	Meghna Vyapar (P) Limited	Associate	33.51
16	Kolhan Complex (P) Limited	Associate	49.88
17	MJSJ Coal Ltd	JV	9.00
18	Kalinga Energy and Power Limited	JV	50.00

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. 022-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Ajay Dhaka
Contact no. 011-4533 218
Mob: 8826868795
Email ID- ajay.dhaka@careratings.com

Relationship Contact
Mr. Lalit Sikaria
Contact no.: 033- 40181600
Mob.: 9830386869
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

For detailed Rationale Report and subscription information, please contact us at www.careratings.com