August 22, 2024

Shyam Century Ferrous Limited: Ratings reaffirmed; outlook revised to Negative

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	26.00	[ICRA]BBB+ (Negative); reaffirmed and outlook revised from Stable
Short Term Non-Fund Based – Letter of Credit	8.00	8.00	[ICRA]A2+; reaffirmed
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating to Negative for Shyam Century Ferrous Limited (SCFL) reflects the continued pressure on its operating performance and profitability over the last four quarters. This was primarily due to a disruption in power supply, escalating the power cost which forms a significant portion of SCFL's cost structure. A weak monsoon in Meghalaya in FY2024 lowered the hydropower generation, resulting in power outages for 16-18 hours per day. This significantly increased the power cost incurred by SCFL as it had to procure power from alternative sources like Indian Energy Exchange (IEX) at significantly higher tariffs. SCFL incurred an operating margin loss of 2.6% in FY2024, which further worsened to 13.3% in Q1 FY2025 due to a decline in the market price of ferrosilicon. ICRA, however, believes that the earnings may recover in the second half of the current fiscal as the power supply from the state discom has improved to 24 hours from July 2024. ICRA understands that SCFL is also evaluating alternative cost-competitive renewable energy sourcing arrangements which could help improve its cost structure over the medium term.

SCFL's ratings continue to benefit from its comfortable financial risk profile, characterised by its net debt negative status as on date and its strong liquidity profile, supported by a significant headroom available in the form of undrawn limits of working capital and sizeable cash and liquid investments, which generates significant non-operating income. The ratings also factor in the financial flexibility enjoyed by SCFL, being a part of the Century Group, as this has helped the company raise funds at competitive interest rates.

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. The ratings are further tempered by the moderation in quality of available coke leading to higher specific consumption and thus a higher cost of production. 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.

Key rating drivers and their description

Credit strengths

Comfortable capital structure – SCFL has a comfortable financial risk profile, characterised by its term debt free status as on March 31, 2024, leading to healthy TOL/TNW of 0.1 times as on March 31, 2024 (0.1 times as on March 31, 2023). The sizeable cash and liquid investments have led to a net debt negative status for the company since FY2021.

Strong liquidity profile and high financial flexibility – The company's liquidity is strong, supported by a significant headroom in undrawn working capital limits and sizeable cash and liquid investments. As on June 30, 2024, the company has undrawn working capital facilities of ~Rs. 24 crore as well as cash and liquid investments of ~Rs. 90 crore. Being a part of the Century Group also imparts financial flexibility to SCFL, demonstrated in its ability to raise funds at competitive interest rates.

Favourable demand outlook for the steel industry – The Government's infrastructure capex plans are expected to support the domestic demand outlook of the steel industry and support the capacity utilisation levels of domestic steel mills, going forward, thus positively impacting the demand outlook for the ferrosilicon industry.

Credit challenges

Significant volatility in earnings, given the cyclical nature of steel industry, the key end-user for ferrosilicon; operations remain loss making in Q1 FY2025 due to power cost escalations and subdued ferro-alloy realisations – The company's operating income decreased by 24% year-on-year (YoY) in FY2024 due to a decline in sales volume and drop in the market price of ferrosilicon. Also, the operating profit before interest depreciation tax and amortisation (OPBIDTA) turned negative in FY2024 on the back of elevated power procurement cost (51% of SCFL's turnover in FY2024 against 35% in FY2023). The power cost increased sharply from Q2 FY2024 due to low hydropower generation in the state, resulting in power cuts for up to 16-18 hours/day. This forced SCFL to procure power from alternative sources like IEX at higher tariff rates. In Q1 FY2025, the company recorded a negative OPBIDTA margin of 13.3% due to a deterioration in ferrosilicon prices and elevated power cost because of poor power availability in Meghalaya. ICRA, however, believes that the earnings may recover in the second half of the current fiscal as the power supply from the state discom has improved in recent months with 24-hour availability July 2024 onwards.

Exposure to regulatory risks associated with raw material availability and moderation in quality of coke available coking – ICRA notes that many Meghalaya-based industries, including SCFL, are exposed to regulatory risks as any unfavorable change in Government policy may impact their raw material availability. In the past, ICRA notes that coke consumers in Meghalaya have encountered operational challenges associated with the banning of coal mining and restrictions on coal movement in the state. Moreover, SCFL's specific consumption of coke has been elevated in the last few years due to moderation in quality of available coke and with coke accounting for ~25% of the cost of producing ferrosilicon, this has escalated the overall input cost for SCFL.

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 downturn. SCFL's modest scale is also a function of its moderate capacity utilisation over the last five years, which stood in the range of 60-70%. 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 of coal movement in the state from FY2020 and subsequent elevated prices of available coal making it more expensive to produce power captively against procurement from external market. However, if adequate coal is available at a competitive rate, the company would be able to operate the plant and will become largely self-sufficient in its power requirements at the current capacity utilisation level.

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 lead to higher costs for ferro-alloy manufacturers in the medium term. SCFL has progressively taken steps towards conservation of energy and technical absorption like carrying out of cooling tower hot basin modification work to arrest water leakage. These measures partly mitigate the risk of non-compliance with the applicable environmental laws and ensure business continuity. Further, SCFL faces 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 of employees involved in the manufacturing activity. In this regard, SCFL has taken proactive measures for its employees, which includes managing the crisis and ensuring the safety and wellbeing of its employees. SCFL has engaged in getting more and more people vaccinated and organised free vaccinations camps for employees across locations. In the area of safety, casualties/ accidents at operating units due to gaps in safety practices could not only lead to 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. SCFL is engaged in Corporate Social Responsibility (CSR) activities in the areas of eradication of hunger and malnutrition, promoting education, art and culture, healthcare, destitute care and rehabilitation, environment sustainability, disaster relief and rural developments projects.

Liquidity position: Strong

SCFL's liquidity position is strong with sufficient undrawn limits and a comfortable cash position. The average monthly utilisation of the fund-based working capital limits was negative from February 2024 to July 2024 due to credit balances outstanding in most of the months. 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 around Rs. 90 crore as on June 30, 2024, thus supporting its on-balance sheet liquidity position.

Rating sensitivities

Positive factors – Given the Negative outlook, a ratings upgrade is unlikely. 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 lead to ratings downgrade. Moreover, a significant debt-funded capex, leading to a deterioration in the debt protection metrics, or a material deterioration in the liquidity position will also exert negative rating pressure.

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 transfer of the ferro alloy business, including a 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 ferro alloy, power, and cement businesses), as per the scheme of demerger approved by the High Court of Meghalaya in Shillong on March 31, 2015, effective from April 01, 2014. 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*	Q1 FY2025*
Operating income	181.0	138.1	26.5
PAT	26.6	0.7	-2.7
OPBDIT/OI	18.3%	-2.6%	-13.3%
PAT/OI	14.7%	0.5%	-10.2%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	-
Total debt/OPBDIT (times)	0.1	-0.7	-
Interest coverage (times)	95.9	-12.4	-42.2

*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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Aug 22, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based – Working capital	Long-term	26.00	[ICRA]BBB+ (Negative)	12-Dec-23	[ICRA]BBB+ (Stable)	31-Oct-22	[ICRA]BBB+ (Stable)	08-Jul-21	[ICRA]BBB+ (Stable)
Non-fund based – Letter of credit	Short-term	8.00	[ICRA]A2+	12-Dec-23	[ICRA]A2+	31-Oct-22	[ICRA]A2+	08-Jul-21	[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	26.00	[ICRA]BBB+ (Negative)
NA	**Non-fund based - Letter of credit**	NA	NA	NA	8.00	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis – 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.

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