

Press Release

Scan Steels Ltd.

December 09, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Debt-WCTL	44.88* (reduced from Rs. 48.50 crore)	IVR BB/ Stable Outlook (IVR Double B with Stable Outlook)	Revised from IVR BB-/ Stable Outlook (IVR Double B Minus with Stable Outlook)
2.	Long Term Debt-FITL	12.57* (reduced from Rs. 16.92 crore)	IVR BB/ Stable Outlook (IVR Double B with Stable Outlook)	Revised from IVR BB-/ Stable Outlook (IVR Double B Minus with Stable Outlook)
3.	Long Term Fund Based Facilities	69.13	IVR BB/ Stable Outlook (IVR Double B with Stable Outlook)	Revised from IVR BB-/ Stable Outlook (IVR Double B Minus with Stable Outlook)
4.	Short Term Non-Fund Based Facility	4.00	IVR A4 (IVR A Four)	Re-affirmed
5.	Short Term Non-Fund Based Facility	1.45	IVR A4 (IVR A Four)	Withdrawn**

*outstanding as on 30th November, 2019

**the company has not proceeded with the facility as planned earlier

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating reflects growth in the scale of operation along with improved capital structure and debt protection metrics. The rating continues to derive strength from the experienced promoters and management team, growth in operating revenue, improved capital structure and debt protection metrics, long track record and established presence in the steel making and a diversified product portfolio.

The rating, however, is tempered by working capital intensive nature of operations, volatility in the prices of raw materials and finished goods, high competition and cyclicity in the steel industry.

Key Rating Sensitivities

Up factors:

- Volume backed operating income growth.
- Improvement / maintenance of profitability leading to improvement in debt protection metrics.

Down factors:

- Sharp changes in leverage
- Further Elongation of working capital cycle

Key Rating Drivers with detailed description

Key Rating Strengths:

Growth in operating revenue: The company's top line increased from Rs 518.56 crore in FY18 to Rs 695.28 crore in FY19 on account of the improving scenario in the steel industry resulting out of various measures by the Government including imposition of import duty on steel etc. The H1FY20 figures have also been encouraging with the company seeing an operating income of Rs. 339.66 crore and EBITDA of Rs. 17.23 crore, which are more or less in lines with the projected numbers.

Improved capital structure and debt protection metrics

The company has a comfortable capital structure with overall gearing ratio being 0.59x in FY19, an improvement from 0.79x in FY18 largely due to a decline in bank borrowings and overall reduction in total debt by Rs. 44.65 crore to Rs. 153.17 crore in FY19 from Rs. 197.82 crore in FY18. Further the company's debt protections parameters are also comfortable, marked by interest coverage ratio of 3.07x in March 31, 2019.

Experienced promoters & management team

SSL was promoted in 1990 by Mr. Sawarmal Gadodia in a small town called Rajgangpur near Rourkela in the state of Odisha. Subsequently, his son Mr. Rajesh Gadodia, who has a B.Tech. degree in Mechanical Engineering and has 20 years of experience. The promoters are well supported by a qualified & experienced Board having requisite experience in their respective fields.

Long track record & established presence in the steel making

Having been incorporated in 1990, the company has a track record of more than two decades with the original promoter group managing the company since inception. SSI is the first company to establish an integrated steel production in the private sector in the state of Odisha.

Diversified product portfolio

The company has a diversified product portfolio comprising of products like Shrishti TMT bars, MS billets and ingots and sponge iron. Further strongest brand presence in the TMT Rods segment of steel market in the State of Odisha. This enables the company to reap the benefits of conglomeration and considerably insulates itself from any sectoral volatility to some extent.

Key Rating Weaknesses:

Working capital intensive nature of operation

Operations of the company are working capital intensive. The inventory holding period, though improved from 70 days in FY18, was moderate at around 58 days in FY19, on account of increased number of orders for TMT Bars. The debtor collection days improved from 41 days in FY18 to an acceptable level of 25 days in FY19. Though, the operating cycle of the company has been more or less at the same level of 66 days in FY19. The turnover has also increased by around 34.07% during this period. As a result of which, the average utilisation of working capital limits of SSL remained high at about 99.07% during 12 months ended September 30, 2019.

Volatility in the prices of raw materials and finished goods

The price of steel has seen a lot of volatility over the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

High competition and cyclical nature in the steel industry

SSL faces stiff competition not only from the established players, but also from the unorganised sector players as there is a low level of product differentiation. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to

excess capacity leading to a downturn in the prices. But the current outlook for the steel industry appears to be good with robust demand in the domestic market.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

Liquidity is adequate, characterised by sufficient cushion in gross cash accruals of Rs. 25.62 crore in FY19, supported by an above unity current ratio. Though, the average utilisation of the bank limits was high at around 99% since October 2018, there is sufficient headroom for increasing the limits due to improved operating income.

About the Company

Scan Steels Ltd (SSL) was incorporated on 11th December 1990 as a private limited company by Shri Sawarmal Gadodia in a small town called Rajgangpur near Rourkela in the state of Odisha. The company at its early stage started a rolling mill and induction furnace which is now a complete integrated steel manufacturing unit having its own captive power plants. Currently the company is engaged in making steel products catering mainly to the mid corporate sector. The company's key products at present are Shrishti TMT bars, MS billets and ingots and sponge iron. Shrishti TMT bar is a USP product with a unique chemical composition. The product has a registered trade mark of Scan Steels Limited. The company has two manufacturing facilities located at Rourkela in Odisha and Bellary in Karnataka.

Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	507.91	696.21
EBITDA	58.83	43.89
PAT	-1.97	6.65
Total Debt	197.82	153.17
Tangible Net-worth	249.11	261.23
EBITDA Margin (%)	11.58	6.30

Infomerics Valuation and Rating Pvt. Ltd.



PAT Margin (%)	-0.39	0.96
Overall Gearing Ratio (x)	0.79	0.59

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Debt-WCTL	Long Term	44.88	IVR BB / Stable Outlook	IVR BB- / Stable Outlook	--	--
2.	Long Term Debt-FITL	Long Term	12.57	IVR BB / Stable Outlook	IVR BB- / Stable Outlook	--	--
3.	Long Term Fund Based Facilities-CC	Long Term	69.13	IVR BB / Stable Outlook	IVR BB- / Stable Outlook		
4.	Short Term Non-Fund Based Facility	Short Term	4.00	IVR A4	IVR A4	--	--
5.	Short Term Non-Fund Based Facility	Short Term	1.45	Withdrawn	IVR A4		

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt-WCTL	NA	NA	March 2026	44.88*	IVR BB/ Stable Outlook
Long Term Debt-FITL	NA	NA	March 2022	12.57*	IVR BB/ Stable Outlook
Long Term Fund Based Facilities- CC	NA	NA	NA	69.13	IVR BB/ Stable Outlook
Short Term Non-Fund Based Facility	NA	NA	NA	4.00	IVR A4
Short Term Non-Fund Based Facility	NA	NA	NA	1.45	Withdrawn

*outstanding as on 30th November, 2019