



Press Release

Scan Energy & Power Limited

May 12, 2023

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	37.50	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned	Simple
Total	37.50 (Rupees Thirty seven crore and fifty lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Scan Energy & Power Limited derives strength from extensive experience of its promoter in iron & steel industry. The rating also factors in satisfactory debt protection metrics of the company with improvement in its financial performance in FY22 and in FY23. However, these rating strengths remain constrained by exposure to intense competition, fragmented nature of industry and exposure to cyclicity in the steel industry. The rating also notes limited financial flexibility of the company owing to its past track record of delays in debt servicing at the time of downturn in the industry in FY16.

Key Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in topline and profitability leading to rise in gross cash accruals on a sustained basis
- Improvement in debt protection metrics

Downward Factors:

- Dip in operating income and/or moderation in profitability impacting the cash accruals and deterioration in debt protection metrics
- Deterioration in the capital structure with overall gearing ratio above 1.5x
- Elongation in operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description



Press Release

Key Rating Strengths

- **Extensive experience of the promoter in the steel industry**

The promoter of the company has around two decades of experience in trading and manufacturing of iron and steel products. Long standing business experience of the promoter has helped the company to build establish relationships with both customers and suppliers.

- **Improvement in financial performance in FY22 and in FY23**

The company's total operating income (TOI) has reported a CAGR of ~73% over FY20-FY22. In FY22, TOI increased by ~78% in FY22 supported by both increase in sales volume and average sales realisation per MT. Further, the company's overall profits as well as cash accruals have improved over the years. In FY23, the company achieved revenue of ~Rs.899 crore.

- **Satisfactory debt protection metrics**

The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA remained satisfactory at 4.61x and 4.42 years respectively as on March 31, 2022. Total indebtedness of the company as reflected by TOL/TNW stood moderate at 2.69x as on March 31, 2022.

Key Rating Weakness:

- **Highly competitive & fragmented nature of industry**

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

- **Exposure to cyclicity in the steel industry**

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.



Press Release

- **Limited financial flexibility**

There had been delays in debt servicing in the past which limits the financial flexibility of the company. Due to slowdown in steel industry in FY16, the company's sales and profitability were severely impacted which resulted into stretched liquidity and consequently delays in debt servicing. Subsequently, the loan was restructured and also transferred to an asset reconstruction company. In July 2022, the company has fully paid and settled account with ARC.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals as against its minimal debt repayment obligations. The average working capital limit utilisation stood at ~56% during the past five months ended January 2023 indicating comfortable liquidity buffer.

About the Company

Incorporated in 2007, Scan Energy & Power Ltd (SEPL) was promoted by Mr. Nimish Gadodia who has more than 20 years of experience in iron & steel industry. The company is engaged in manufacturing steel billet and TMT/wire rod with capacities of 500 TPD and 500 TPD respectively in Telangana.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	485.96	864.65
EBITDA	23.81	30.97
PAT	9.54	12.49
Total Debt	115.46	109.77
Tangible Net worth	51.69	69.18
EBITDA Margin (%)	4.90	3.58
PAT Margin (%)	1.96	1.44



Press Release

For the year ended* / As On	31-03-2021	31-03-2022
Overall Gearing Ratio (x)	2.23	1.59

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	12.50*	IVR BB+/Stable	-	-	-
2.	Cash Credit	Long Term	25.00	IVR BB+/Stable	-	-	-

*outstanding as on March 31, 2023

Name and Contact Details of the Rating Analyst:

Name: Mr. Ashish Agarwal	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: aagarwal@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com



Press Release

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Term Loan	-	-	Sep 2025	12.50	IVR BB+/Stable
Cash Credit	-	-	-	25.00	IVR BB+/Stable
Total				37.50	

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-scanenergy-may23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.