Press Release

Scan Steels Ltd

November 10, 2022

Ratings

Instrument/Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	103.55	IVR BBB+/ Negative (IVR Triple B Plus With Negative Outlook)	Rating reaffirmed with outlook revised from 'Stable' to 'Negative'	Simple
Short Term Bank Facility	4.00	IVR A2 (IVR A Two)	Rating reaffirmed	Simple
Total	**107.55 (INR One hundred and seven crore and fifty five lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating outlook from Stable to Negative considers the YoY decline in profitability of the company in Q2FY23 as depicted by an EBITDA loss of INR5.39 crore vis-à-vis an EBITDA of INR6.62 crore in Q2FY22 on account of disproportionate increase in coal prices vis-à-vis increase in end product realisations. Consequently, the net profit and GCA has declined to INR11.94 crore and INR18.29crore respectively in H1FY23 from INR23.74crore andINR37.57 crore respectively during the corresponding period of previous fiscal year. Infomerics expects a decline in profitability in current fiscal vis-à-vis previous fiscal, which is likely to adversely impact the financial risk profile of the company.

The reaffirmation of the ratings assigned to the bank facilities of the entity, however, derives comfort from its financial risk profile characterised by conservative capital structure and healthy coverage indicators, favourable demand for the steel industry, experienced promoters and management team with long track record in the steel industry and a diversified product portfolio. These rating strengths are partially offset due to significant decline in the profits of the company in H1FY23 vis-à-vis H1FY22, volatility in the prices of raw materials and finished goods and high competition and cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the profitability margins
- Improvement in the capital structure and coverage indicators on a sustained basis

Downward Factors

- Decline in scale of operations leading to further decline in margins
- Deterioration in capital structure due to increase in leverage
- Elongation of working capital cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Financial risk profile characterised by conservative capital structure and healthy coverage indicators**

While the total debt of the Company increased by ~13% from INR105.78 crore in FY21 to INR119.35 crore in H1FY23, the long-term debt decreased by ~30% from INR64.96 crore in FY22 to INR45.66 crore in H1FY23. The long-term debt equity ratio improved from 0.16x in FY22 to 0.10x in H1FY23. The overall gearing ratio was maintained at around 0.30x in H1FY23. The interest coverage ratio, however, declined from 9.02x in FY22 to 4.90x in H1FY23 while still remaining comfortable. The DSCR as at the end of FY22 stood at 4.07x.

- **Experienced promoters & management team with long track record in the steel industry**

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 20 years of experience came to handle the business. The promoters are well supported by a qualified & experienced Board having requisite expertise in their respective fields. 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. SSL is the first company to establish an integrated steel production factory 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 there is a strong brand presence in the TMT Rods segment of the steel market in the State of Odisha. This enables the company to reap the benefits of conglomeration insulating itself from any sectoral volatility to some extent.

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- **Favorable demand outlook for the steel industry**

The steel sector witnessed a V-shaped recovery following Unlock 1.0 in India after a significant contraction in FY20. The domestic steel prices have increased significantly from H2FY21 onwards. This improvement in steel prices and demand has led the company to notch high revenues.

Key Rating Weaknesses

- **Significant decline in the profits of the Company in H1FY23 vis-à-vis H1FY22**

EBITDA, PBT, PAT, and GCA declined by 29% YoY, 46.2% YoY, 49.7% YoY, and 51.3% YoY in H1FY23 vis-à-vis H1FY22. EBITDA, PBT, and PAT margins as on H1FY23 stood at 5.5%, 3.3%, and 2.3% respectively vis-à-vis 10.1%, 7.8%, and 5.9% respectively in H1FY22. The significant decline in the profits and margins in H1FY23 versus H1FY22 were due to the disproportionate increase in coal prices versus the increase in TMT bars realisations during the period. Infomerics expects the decline in the profits during H1 FY2023 is likely to adversely impact the financial risk profile of the company during the current fiscal year.

- **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 are also volatile; hence, profitability of the company is susceptible to fluctuations in the prices of its raw material prices and finished goods.

- **High competition and cyclicality 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 has witnessed prolonged periods of downturn due to excess capacity leading to a downward movement in the prices. But the current outlook for the steel industry appears to be stable with steady demand in the domestic market.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate

The company had a very comfortable current ratio of 2.29x in FY22 and this ratio is remaining above the 1.9x mark between FY23 and FY25. The GCAs of each of the years between FY22 and FY25 comfortably cover the debt repayments due in the respective years. The Operating Cycle is comfortably in the range, of 60-63 days between FY22 and FY25. The average utilisation of working capital limits is also comfortable at ~37% in FY22.

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 trademark of Scan Steels Limited. The company has two manufacturing facilities located at Rourkela in Odisha and Bellary in Karnataka

Financials (Standalone):

INR in Crores

For the year ended* / As on	31-03-2021	31-03-2022	H1FY22	H1FY23
	Audited	Audited	Unaudited	Unaudited
Total Operating Income	732.10	1000.18	399.23	517.10
EBITDA	69.10	86.05	40.22	28.57
PAT	31.15	50.77	23.74	11.94
Total Debt	95.71	105.78	108.80	119.35
Tangible Net worth (Adjusted)	308.16	357.85	330.81	369.79
EBIDTA Margin (%)	9.44	8.60	10.07	5.52
PAT Margin (%)	4.23	5.07	5.92	2.31
Overall Gearing ratio (X) (Adjusted)	0.28	0.28	0.31	0.30

**Classification as per informerics' standards*

Status of non-cooperation with previous CRA: NA

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2022-23)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Current Rating	Rating (July 05, 2022)	Date(s) & Rating(s) assigned in 2021-22 (August 20, 2021)	Date(s) & Rating(s) assigned in 2020-21 (February 27, 2021)	Date(s) & Rating(s) assigned in 2019-20 (December 9, 2019)
1.	GECL Loans	Long Term	34.42	IVR BBB+/ Negative	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BB+/ Stable	IVR BB/ Stable
2.	Cash Credit	Long Term	69.13	IVR BBB+/ Negative	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BB+/ Stable	IVR BB/ Stable
3.	Bank Guarantee	Short Term	4.00	IVR A2	IVR A2	IVR A3+	IVR A4+	IVR A4

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About Infomerics Ratings:

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

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
GECL 1	-	-	Jan 2026	15.26	IVR BBB+/ Negative
GECL 2	-	-	Dec 2027	7.93	IVR BBB+/ Negative
GECL 3	-	-	Jan 2026	7.40	IVR BBB+/ Negative
GECL 4	-	-	Oct 2027	3.83	IVR BBB+/ Negative
Cash Credit 1	-	-	-	30.13	IVR BBB+/ Negative
Cash Credit 2	-	-	-	39.00	IVR BBB+/ Negative
Bank Guarantee	-	-	-	4.00	IVR A2

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

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-Scan-Steels-nov22.pdf

Annexure 4: Detailed explanation of covenants of the rated 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.