Scan Steels Ltd

July 05, 2022

Ratings

Sl. No.	Type of Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
1	Long Term Fund Based Facilities	103.55	IVR BBB+/ Stable (IVR Triple B Plus With Stable Outlook)	Revised	Simple
2	Short Term Non-Fund Based Facilities	4.00	IVR A2 (IVR A Two)	Revised	Simple
Total		**107.55 (Rupees One Hundred and Seven Crore and Fifty-Five Lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings is driven by the improvement in the company's financials in FY22 along with an improved financial risk profile being supplemented by experienced promoters and management team.

The aforesaid rating revision to the bank facilities of the entity derives comfort from improvement in profitability, improved financial risk profile, favourable demand for steel industry, experienced promoters and management team with long track record in the steel industry and a diversified product portfolio. However, the volatility in the prices of raw materials and finished goods and high competition and cyclicality in the steel industry are the rating constraints.

Key Rating Sensitivities:

Upward Factors

- Maintenance/sustained improvement in the projected profitability margins
- Decline in leverage

Downward Factors

- Decline in scale of operations leading to a 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

Improvement in profitability

The operating income of the company has increased by 36.6% from INR732.10 crore in FY21 to INR1000.18 crore in FY22, primarily because of increased prices of steel products (TMT Bars, MS Ingot/Billet, and Sponge Iron). The EBITDA in absolute term has increased by 24.5% from INR69.10 crore in FY21 to INR86.05 crore in FY22, the PAT has also improved from INR31.15 crore in FY21 to INR50.77 crore in FY22 with the company achieving an all-time high absolute PAT level. As a consequence of better profitability, the gross cash accruals of the company has improved from INR62.42 crore in FY21 to INR74.55 crore in FY22. The operating margin decreased from 9.44% in FY21 to 8.60% in FY22, primarily because of increase in raw material prices, however, the PAT margin improved from 4.23% in FY21 to 5.07% in FY22.

Improved financial risk profile

The total debt of the company has increased by 10.5% from INR95.71 crore in FY21 to INR105.78 crore in FY22, the long-term debt increased from INR60.48 crore in FY21 to

INR64.96 crore in FY22. The long-term debt equity ratio has improved from 0.17x in FY21 to 0.16x in FY22. The overall gearing ratio was maintained at 0.28x in FY22. The interest coverage ratio has improved as a consequence of improved profitability, rising from 6.36x in FY21 to 9.63x in FY22. The DSCR has also improved from 3.44x in FY21 to 4.07x in FY22.

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 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 and are currently at an all-time high, driven by the increasing global steel prices. This improvement in steel prices and demand has led the company to notch very high revenues and profits.

Key Rating Weaknesses

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 good with robust 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 has 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	31-03-2020	31-03-2021	31-03-2022
	Audited	Audited	Audited
Total Operating Income	665.82	732.10	1000.18
EBITDA	38.05	69.10	86.05
PAT	0.32	31.15	50.77
Total Debt	144.21	95.71	105.78
Tangible Net worth (Adjusted)	277.26	308.16	357.85
EBIDTA Margin (%)	5.71	9.44	8.60
PAT Margin (%)	0.05	4.23	5.07
Overall Gearing ratio (X) (Adjusted)	0.49	0.28	0.28

**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)	Rating	Date(s) & Rating(s) assigned in 2021-22 (PR dated 20.08.2021)	Date(s) & Rating(s) assigned in 2020-21 (PR dated 27.02.21)	Date(s) & Rating(s) assigned in 2019-20 (PR dated 09.12.19)
1.	Long Term Fund Based Facility – GECL	Long Term	34.42	IVR BBB+/ Stable	IVR BBB/ Stable Outlook	IVR BB+/ Stable Outlook	IVR BB/ Stable Outlook
2.	Long Term – Fund Based Facility – Cash Credit	Long Term	69.13	IVR BBB+/ Stable	IVR BBB/ Stable Outlook	IVR BB+/ Stable Outlook	IVR BB/ Stable Outlook
3.	Short Term Non-Fund Based Facility – Bank Guarantee	Short Term	4.00	IVR A2	IVR A3+	IVR A4+	IVR A4

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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.

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Annexure 1: Details of Facilities

S. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
1	Long Term Debt – GECL	NA	NA	Up to 2026, Ext up to 2027	34.42	IVR BBB+/ Stable
2	Long Term – Fund Based Facility – Cash Credit	NA	NA	NA	69.13	IVR BBB+/ Stable
3	Short Term Facility Non-Fund Based – Bank Guarantee	NA	NA	NA	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-july22.pdf

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr. No.	Instrument	Complexity Indicator
1.	Term Loan- GECL	Simple
2.	Cash Credit	Simple
3.	Bank Guarantee	Simple

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.