



Press Release

Scan Steels Limited (SSL)

August 20, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Debt – GECL	23.54	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Revised
2.	Long Term Facilities – Fund Based – Cash Credit	69.13	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Revised
3.	Short Term Facilities – Non Fund Based – Bank Guarantee	4.00	IVR A3+ (IVR A Three Plus)	Revised
	Total	96.67		

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 FY21 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, 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 cyclicity in the steel industry are the rating constraints.

Key Rating Sensitivities

Upward factors:

- Sustained improvement in profitability margins as projected
- Decline in leverage

Downward factors:

- Decline in scale of operations leading to further decline in margins



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- Deterioration in capital structure due to increase in leverage
- Elongation of working capital cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Improvement in profitability

The total operating income of the company has increased by 9.95% from INR665.82 crore in FY20 to INR732.10 crore in FY21, with increased demand and sale of steel products (majorly tmt bars and MS Ingot/Billet) with subsequent increase in prices of alloy, the EBITDA in absolute term has almost doubled from INR38.05 crore in FY20 to INR69.10 crore in FY21, the PAT has also improved from INR0.32 crore in FY20 to INR31.15 crore in FY21, the company has achieved an all-time high absolute PAT level. The operating margin has increased from 5.71% in FY20 to 9.44% in FY21, PAT margin improving substantially from 0.05% in FY20 to 4.23% in FY21.

Improved financial risk profile

The total debt of the company has declined by 34% from INR144.21 crore in FY20 to INR95.71 crore in FY21, the long term debt declining from INR82.40 crore in FY20 to INR60.48 crore in FY21, as the management has been striving to deleverage the balance sheet; the long term debt equity ratio has improved from 0.27x in FY20 to 0.17x in FY21, the overall gearing ratio also improving from 0.49x in FY20 to 0.28x in FY21. The interest coverage ratio has improved as a consequence of improved profitability leading to increased EBITDA and decline in interest expenses, rising from 2.55x in FY20 to 6.36x in FY21.

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 has 20 years of experience. The promoters are well supported by a qualified & experienced Board having requisite experience 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.



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SSL 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.

Favourable demand outlook for steel industry

The steel sector witnessed a V-shaped recovery following Unlock 1.0 in India after significant contraction in FY20 and further aggravated by the pandemic. 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 very improvement in steel prices and demand has led to the company notching revenues much higher than ever before.

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 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 cyclicity 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: Standalone



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Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The company has a current ratio of 1.77x, which has remained above unity and has been improving over the last three fiscals. The company has had short term obligations amounting to INR22.73 crore with gross cash accruals amounting to INR62.42 crore and cash and bank balance of INR2.83 crore; giving the company cushion for payment of short term obligations.

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 (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-19	31-03-20	31-03-21
	(Audited)	(Audited)	(Audited)
Total Operating Income	695.28	665.82	732.10
EBITDA	42.96	38.05	69.10
PAT	6.65	0.32	31.15
Total Debt	153.17	144.21	95.71
Tangible Net-worth	261.23	269.01	300.16
Ratios			
EBITDA Margin (%)	6.18	5.71	9.44
PAT Margin (%)	0.95	0.05	4.23
Overall Gearing Ratio (x)	0.59	0.54	0.28

* Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	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)	Date(s) & Rating(s) assigned in 2018-19 (PR dated 17.01.19)
1.	Long Term Debt – GECL	Long Term	23.54	IVR BBB/ Stable Outlook	IVR BB+ 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 Outlook	IVR BB+ Stable Outlook	IVR BB/ Stable Outlook	IVR BB- Stable Outlook
3.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	4.00	IVR A3+	IVR A4+	IVR A4	IVR A4

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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 (INR Crore)	Rating Assigned/ Outlook
Long Term Debt – GECL	NA	NA	Up to 2026	23.54	IVR BBB/ Stable Outlook
Long Term – Fund Based Facility – Cash Credit	NA	NA	NA	69.13	IVR BBB/ Stable Outlook
Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	NA	4.00	IVR A3+

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

Annexure 3: [Facility wise lender details](#)

<https://www.infomerics.com/admin/prfiles/lenders-Scan-Steels-Ltd-20-aug-21.pdf>

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

Annexure 5: Complexity level of the rated Instruments/Facilities

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



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