



Press Release

Scan Steels Limited

September 22, 2023

Ratings

Instrument/Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	106.93 (Enhanced from 103.55)	IVR BBB+/ Negative (IVR Triple B Plus With Negative Outlook)	Rating reaffirmed	Simple
Short Term Bank Facility	4.00	IVR A2 (IVR A Two)	Rating reaffirmed	Simple
Total	110.93 (One Hundred and Ten Crore and Ninety Three Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of the entity derives comfort from the experienced promoters and management team with long track record in the steel industry, comfortable financial risk profile, diversified product portfolio, and favourable demand outlook for the steel industry. These rating strengths are partially offset due to the deterioration in profit margins and profits despite growth in total operating income, volatility in the prices of raw materials and finished goods, and high competition and cyclical nature in the steel industry. The rating outlook continues to remain negative in view of the decline in profitability in FY23 and Q1FY24. However, the same has witnessed improvement in July-August 2023 vs. July-August



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2022. Having said that, sustainability of such improvements remains to be seen and will be a key monitorable going forward.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the profit margins and profits
- Decline in leverage

Downward Factors

- Decline in scale of operations leading to decline in profits and profit margins
- Any unplanned debt funded capex leading to 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

- **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.

- **Comfortable financial risk profile**

The total debt of the Company increased by ~6% from INR105.78 crore on March 31, 2022 to INR112.27 crore on March 31, 2023, the long term debt decreased from INR64.96 crore on March 31, 2022 to INR46.75 crore on March 31, 2023. CC utilisation increased from INR40.82



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crore in FY22 to INR55.33 crore in FY23. The long-term debt equity ratio improved from 0.19x on March 31, 2022 to 0.13x on March 31, 2023. The overall gearing ratio was maintained at around 0.31x on March 31, 2023 in line with March 31, 2022. The interest coverage ratio deteriorated as a consequence of reduced operating profits, decreasing from 9.02x in FY22 to 2.49x in FY23 while still remaining comfortable, and the DSCR also deteriorated from 4.07x in FY22 to 1.59x in FY23 while still remaining comfortable.

- **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.

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

The steel sector is expected to do well in the near to medium term given the steady growth in real estate and infrastructure activities across the country despite the prevailing high interest rate environment. India's steel demand is set for a 7% to 9% surge in the 2024 fiscal year driven by government infrastructure spending and robust domestic consumption. There would be an expected demand boost from election driven government projects, and the end user industries including construction, automobile manufacturing, and engineering. Additionally, the government's removal of a 15% export duty in November 2022 is likely to continue to stimulate export demand.

Key Rating Weaknesses

- **Deterioration in profit margins and profits despite growth in total operating income**

The operating income of the Company increased by 9.42% from INR1000.18 crore in FY22 to INR1090.78 crore in FY23, primarily because of increased prices of steel products (TMT Bars, MS Ingot/Billet, and Sponge Iron). The EBITDA in absolute term, however, decreased by ~43% from INR86.05 crore in FY22 to INR49.00 crore in FY23, primarily because of increased raw material costs, particularly coal. The drop in EBITDA percolated to PAT, which also faced pressure because of high interest charges, and accordingly dropped by ~70% YoY from INR 50.77 crore in FY22 to INR15.32 crore in FY23. It must be noted that interest charges



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increased from INR 8.94 crore in FY22 to INR 19.31 crore in FY23 because of Right of Recompense charges paid to State Bank of India in March 2023 with regard to the earlier loan restructuring amounting to INR 10.42 crore. As a consequence of reduced profits, the gross cash accruals of the Company reduced from INR74.55 crore in FY22 to INR29.75 crore in FY23. The operating margin decreased from 8.60% in FY22 to 4.49% in FY23 primarily because of increase in raw material prices as noted above; PAT margin deteriorated from 5.07% in FY22 to 1.40% in FY23. Q1FY24 Results in comparison with Q1FY23 Results have also continued to show deterioration. Total Operating Income deteriorated from INR306.60 crore in Q1FY23 to INR227.15 crore in Q1FY24. EBITDA deteriorated from INR34.57 crore in Q1FY23 to INR12.68 crore in Q1FY24 while PAT deteriorated from INR20.55 crore in Q1FY23 to INR4.71 crore in Q1FY24.

- **Volatility in the prices of raw materials and finished goods**

Steel prices are very volatile in nature. The costs of raw materials are also volatile, hence, profitability of the steel manufacturing companies including Scan steels is susceptible to fluctuations in the prices of its raw material prices and 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 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 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



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The Company had a very comfortable current ratio of 1.91x on March 31, 2023 and this ratio is remaining in the range 1.91x – 2.12x between March 31, 2024 and March 31, 2026. The GCAs of each of the years between FY24 and FY26 comfortably cover the debt repayments due in the respective years. The Operating Cycle is comfortably in the range, of 67-74 days between March 31, 2024 and March 31, 2026. The average utilisation of fund based working capital limits is also comfortable at ~65% between July 2022 and June 2023. Unencumbered cash balance along with mutual funds investments stood at INR16.06 crores as on March 31, 2023.

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 one manufacturing facility located at Rourkela in Odisha.

Financials (Standalone):

	INR in Crores			
For the year ended* / As on	31-03-2022	31-03-2023	Q1FY23	Q1FY24
	Audited	Audited	Unaudited	Unaudited
Total Operating Income	1000.18	1090.78	306.60	227.15
EBITDA	86.05	49.00	34.57	12.68
PAT	50.77	15.32	20.55	4.71
Total Debt	105.78	112.27	-	-
Tangible Net worth (Adjusted)	357.85	365.98	-	-
EBIDTA Margin (%)	8.60	4.49	11.30	5.60
PAT Margin (%)	5.07	1.40	6.70	2.10
Overall Gearing ratio (X) (Adjusted)	0.28	0.31	-	-



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**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22 (August 20, 2021)	Date(s) & Rating(s) assigned in 2020-21 (February 27, 2021)
					(November 10, 2022)	(July 05, 2022)		
1.	GECL Loans	Long Term	7.93	IVR BBB+/ Negative	IVR BBB+/ Negative	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BB+/ Stable
2.	Cash Credit	Long Term	99.00	IVR BBB+/ Negative	IVR BBB+/ Negative	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BB+/ Stable
3.	Bank Guarantee	Short Term	4.00	IVR A2	IVR A2	IVR A2	IVR A3+	IVR A4+

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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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	-	-	Dec 2027	7.93	IVR BBB+/ Negative
Cash Credit 1	-	-	-	54.00	IVR BBB+/ Negative
Cash Credit 2	-	-	-	45.00	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-SCL-sep23.pdf>

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



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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.

