

Press Release

Scan Steels Ltd.

January 17, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Debt- WCTL	48.50	IVR BB-/ Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
2.	Long Term Debt- FITL	16.92	IVR BB-/ Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
3.	Long Term Fund Based Facilities	69.13	IVR BB-/ Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
4.	Short Term Non-Fund Based Facility (including proposed limit of Rs.1.45 crore)	5.45	IVR A4 (IVR A Four)	Assigned
	Total	140.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from the experienced promoters and management team, long track record and established presence in the steel making, diversified product portfolio, growth in scale of operation along with moderate capital structure and debt protection metrics.

The rating, however, is tempered by past delays in servicing of debt, losses at PAT level in FY18; albeit improvement in H1FY19, working capital intensive nature of operation, volatility in the prices of raw materials and finished goods, high competition and cyclicity in the steel industry.

Timely servicing of debt, improvement in profitability and working capital management are the key rating sensitivities.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters & management team

SSL was promoted in 1990 by Mr. Sawarmal Gadodia in a small town called Rajgangpur near Rourkela in the state of Odisha. Now it is being managed by his son Mr. Rajesh Gadodia, who has a B.Tech degree in Mechanical Engineering and has 20 years of experience. They are well supported by a management team having requisite experience in respective fields.

Long track record & established presence in the steel making

SSL 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 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 it has a strong brand presence in the TMT Rods segment of steel market in the State of Odisha.

Growth in scale of operation

The company's topline increased from Rs.354.43 crore in FY16 to Rs.519.74 crore in FY18 on account of the improved scenario in the steel industry as a result of various measures by the Government including imposition of import duty on steel etc.

Moderate capital structure and debt protection metrics

The company has a moderate capital structure with overall gearing ratio being 0.79x as on March 31, 2018. Further the company's debt protection parameters are also moderate, marked by interest coverage ratio of 1.63x in March 31, 2018.

Key Rating Weaknesses:

Past delays in servicing of debt

During FY 2015-16, the prices of the finished products had reduced drastically due to cheaper imports of steel products to India. Hence, the value of stocks held by the company

has fallen and drawing power had consequently reduced. This had led to irregularity in the account. However, the delays/defaulted have been cleared in September 24, 2018.

Losses at PAT level in FY18; albeit improvement in H1FY19

Although the company's EBITDA margin improved from 4.35% in FY17 to 11.32% in FY18, the company continued to report losses at the PAT level primarily on account of high interest expenses. However there is improvement in GCA and SSL has reported PAT of Rs. 13.19 crore on total income of Rs.350.56 crore in H1FY19 (as against loss of Rs.2.78 crore on total income of Rs.226.85crore in H1FY19).

Working capital intensive nature of operation

Steel sector is working capital intensive. In March 2018, SBI restructured the account post which the working capital utilisation has been around 86% for eight months ended November 30, 2018.

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 cyclical nature 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

Analytical Approach &Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Infomerics Valuation And Rating Pvt. Ltd.



Liquidity

The Company is expected to generate sufficient accruals going forward as against its repayment obligations post restructuring. Liquidity is further supported by financial support from promoters in the form of unsecured loans.

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:

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	420.24	519.74
EBITDA	18.28	58.83
PAT	-11.81	-1.97
Total Debt	211.53	197.82
TangibleNetworth	245.13	249.11
EBITDA Margin (%)	4.35	11.32
PAT Margin (%)	-2.81	-0.38
Overall Gearing Ratio (x)	0.86	0.79

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Debt-WCTL	Long Term	48.50	IVR BB-/ Stable Outlook	--	--	--
2.	Long Term Debt- FITL	Long Term	16.92	IVR BB-/ Stable Outlook	--	--	--
3.	Long Term Fund Based Facilities	Long Term	69.13	IVR BB-/ Stable Outlook	--	--	--
4.	Short Term Non-Fund Based Facility (including proposed limit of Rs.1.45 crore)	Short Term	5.45	IVR A4	--	--	--

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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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 (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt-WCTL	NA	NA	June 2026	48.50	IVR BB-/ Stable Outlook
Long Term Debt-FITL	NA	NA	June 2022	16.92	IVR BB-/ Stable Outlook
Long Term Fund Based Facilities	NA	NA	NA	69.13	IVR BB-/ Stable Outlook
Short Term Non-Fund Based Facility	NA	NA	NA	5.45	IVR A4