Press Release

Scan Energy & Power Limited

January 17, 2024

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	52.50 (enhanced from 37.50)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Revised from IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Simple
Total	**52.50 (Rupees fifty-two crore and fifty lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Scan Energy & Power Limited derives strength from improvement in the company's business performance in FY23 and subsequently in 9MFY24 leading to satisfactory financial risk profile. The rating also continues to factor in extensive experience of its promoter in iron & steel industry. However, these rating strengths continues to remain constrained by exposure to intense competition, fragmented nature of industry and exposure to cyclicality in the steel industry.

Key Rating Sensitivities

Upward Factors:

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and/or improvement in debt protection metrics

Downward Factors:

- Decline in revenue and profitability leading to deterioration in gross cash accruals and moderation in debt protection metrics on a sustained basis
- Deterioration in the capital structure with moderation in overall gearing ratio to above 1.5x
- Moderation in operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in the steel industry**
  The promoter of the company has around two decades of experience in trading and manufacturing iron and steel products. Long standing business experience of the promoter has helped the company to build established relationships with both customers and suppliers.
- **Improvement in business performance in FY23 and in 9MFY24**
  Total operating income stood at Rs.896.95 crore in FY23 as compared to Rs.864.65 crore in FY22 supported by better average sales price realisation per MT. Further, the EBITDA margin of the company has also increased from 3.58% in FY22 to 4.34% in FY23 on the back of higher absorption of overhead consequent to rise in capacity utilisation coupled with increase in average sales realisation. Moreover, with the rise in total operating income, the profit levels of the company have also increased in FY23. Consequent to rise in profitability, gross cash accruals have also improved from Rs.24.83 crore in FY22 to Rs.26.05 crore in FY23. Further, in 9MFY24, the company has achieved a revenue of ~Rs. 612 crore.
- **Satisfactory financial risk profile**
  The financial risk profile of the company remained satisfactory. The tangible net worth of the company includes subordinated unsecured loan of Rs.20 crore. Based on the tangible net worth including quasi equity, the long-term debt equity ratio and overall gearing ratio stood at 0.46x and 0.52x respectively as on March 31,2023 as against 1.14x and 1.59x respectively as on March 31, 2022. Total indebtedness of the company marked by TOL/ATNW including quasi equity stood satisfactory at 1.46x as on March 31,2023 as compared to 2.69x as on March 31, 2022. The interest coverage ratio moderated from 4.61x in FY22 to 2.89x in FY23. However, Total debt/GCA and Total debt to EBITDA improved and remained satisfactory at 2.73 years and 1.82x respectively as on March 31, 2023 on the back of rise in profit levels and consequent improvement in gross cash accruals.

Key Rating Weakness:

- **Highly competitive and fragmented nature of industry**
  The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.
- **Exposure to cyclicality in the steel industry**

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria of assigning Rating Outlook

Policy on default recognition

Liquidity: Adequate

The liquidity position of the company is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals as against its minimal debt repayment obligations. The average cash credit limit utilisation stood at ~45% during the past 12 months ended September 2023 indicating comfortable liquidity buffer.

About the Company

Incorporated in 2007, Scan Energy & Power Ltd (SEPL) was promoted by Mr. Nimish Gadodia who has more than 25 years of experience in the iron & steel industry. The company is engaged in manufacturing steel billet and TMT/wire rod with capacities of 182500 MTPA each in Telangana, Andhra Pradesh.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	864.65	896.95
EBITDA	30.97	38.97
PAT	12.49	20.32
Total Debt	109.77	71.03
Tangible Net worth	69.18	118.41
Adjusted Tangible Net worth	69.18	137.26
EBITDA Margin (%)	3.58	4.34
PAT Margin (%)	1.44	2.26

For the year ended* / As On	31-03-2022	31-03-2023
Overall Gearing Ratio (x)	1.59	0.52

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	9.58*	IVR BBB- / Stable	IVR BB+/Stable (May 12,2023)	-	-	-
2.	Cash Credit	Long Term	25.00	IVR BBB- / Stable	IVR BB+/Stable (May 12,2023)	-	-	-
3.	WCDL	Long Term	15.00	IVR BBB- / Stable	-	-	-	-
4.	Proposed Cash Credit	Long Term	2.92	IVR BBB- / Stable	-	-	-	-

*Outstanding as on October 31, 2023

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About Infomerics:

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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Term Loan	-	-	Sep 2025	9.58*	IVR BBB-/Stable
Cash Credit	-	-	-	25.00	IVR BBB-/Stable
WCDL	-	-	-	15.00	IVR BBB-/Stable
Proposed Cash Credit	-	-	-	2.92	IVR BBB-/Stable
Total				**52.50**	

**Outstanding as on October 31, 2023*

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-scanpower-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/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 https://www.infomerics.com/