



Press Release

Scan Steels Limited (SSL)

February 27, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Debt – WCTL	44.50 (reduced from INR44.88 crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised
2.	Long Term Debt - FITL	11.66 (reduced from INR12.57 crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised
3.	Long Term Facilities – Fund Based – Cash Credit	69.13	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised
4.	Short Term Facilities – Non Fund Based – Bank Guarantee	4.00	IVR A4+ (IVR A Four Plus)	Revised
	Total	129.29		

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 the 9MFY21 financials along with an improved financial risk profile supplemented by experienced promoters and management team.

The aforesaid rating revision to the bank facilities of the entity derives comfort from the company's moderate financial performance in FY20 which has been improving in 9MFY21, 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.



Press Release

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

Key Rating Drivers with detailed description

Key Rating Strengths

Moderate financial performance in FY20, albeit improving in 9MFY21

The top line of the company has declined by 4.24% in FY20 from INR695.28 crore in FY19 to INR665.82 crore in FY20, leading to a decline in absolute EBITDA from INR42.96 crore in FY19 to INR38.05 crore in FY20, the decline in profitability and margins have been due to volatility in raw material prices, lower realisation and slowdown in the steel sector in the country due to the unprecedented stagnation in economic activity during the year (FY20). The 9 month results of the company have been encouraging as the company has been able achieved 82% of their projected income, with a total of INR491.52 crore at the end of December, 2020, absolute EBITDA improving by ~44% from the previous year to INR35.85 crore, PAT amounting to INR7.08 crore, EBITDA margin of 7.29% and PAT margin of 1.44% which has been buoyed by increased steel demand in the country led by lifting of the lockdown measures.

Improved financial risk profile

The financial risk profile of the company has improved with a decline in total debt by 5.85%, from INR153.17 crore in FY19 to INR144.21 crore in FY20, leading to an improvement in the overall gearing ratio from 0.59x in FY19 to 0.54x in FY20. The current ratio has remained above unity over the past three fiscals which is coupled with gross cash accruals amounting to INR25.83 crore in FY20.



Press Release

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. 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.

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



Press Release

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The company has had the current ratio of 1.34x, which has remained above unity and has been improving over the last three fiscals. The company has had short term obligations amounting to INR25.35 crore with gross cash accruals amounting to INR25.83 crore and cash and bank balance of INR1.79 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	31-03-2018	31-03-2019	31-03-20
	(Audited)	(Audited)	(Audited)
Total Operating Income	507.91	695.28	665.82
EBITDA	58.83	42.96	38.05
PAT	-1.97	6.65	0.32
Total Debt	197.82	153.17	144.21
Tangible Net-worth	249.10	261.23	269.01
Ratios			
EBITDA Margin (%)	11.58	6.18	5.71
PAT Margin (%)	-0.39	0.95	0.05
Overall Gearing Ratio (x)	0.79	0.59	0.54

* Classification as per Infomerics' standards



Press Release

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 2020-21)			Rating History for the past 3 years	
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (PR dated December 09, 2019)	Date(s) & Rating(s) assigned in 2018-19 (PR dated January 17, 2019)
1.	Long Term Debt – WCTL	Long Term	44.50	IVR BB+ Stable Outlook	IVR BB/ Stable Outlook	IVR BB- Stable Outlook
2.	Long Term Debt – FITL	Long Term	11.66	IVR BB+ Stable Outlook	IVR BB/ Stable Outlook	IVR BB- Stable Outlook
3.	Long Term – Fund Based Facility – Cash Credit	Long Term	69.13	IVR BB+ Stable Outlook	IVR BB/ Stable Outlook	IVR BB- Stable Outlook
4.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	4.00	IVR A4+	IVR A4	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.



Press Release

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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 – WCTL	NA	NA	Up to 2026	44.50	IVR BB+/ Stable Outlook
Long Term Debt – FITL	NA	NA	Up to 2022	11.66	IVR BB+/ Stable Outlook
Long Term – Fund Based Facility – Cash Credit	NA	NA	NA	69.13	IVR BB+/ Stable Outlook
Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	NA	4.00	IVR A4+