Supershakti Metaliks Limited

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	62.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	50.00	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	**112.00 (₹ One Hundred Twelve Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings of bank facilities of Supershakti Metaliks Limited (SML) takes into account improvement in financial performance of the company in FY22 (refers to period April 01 to March 31) on the back of increase in sales volume as well as sales realization of finished products amid improved industry scenario. The rating also factors in comfortable capital structure and debt protection metrics on the back of low reliance on external debt coupled with accretion of profits to reserve. This apart, the rating continues to draw strength from extensive experience of promoters in the iron and steel industry, strategic location of plant and satisfactory capacity utilization.

The rating is constrained by cyclical nature of the steel industry and profitability susceptible to volatility in the prices of raw materials and finished goods. In addition, the rating also factor in exposure to its group entity Giridhan Metal Private Limited (GMPL) in the form of investments and corporate guarantee proposed to be extended by SML for the debt availed by GMPL.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in scale of operations as marked by total operating income of above Rs.700 crores on sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 7.00% and 3.50% respectively on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio above 0.50x.
- Any major debt funded capex.
- Any sharp deviation in the progress of the project under GMPL as envisaged leading to delay in expected cash flows.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters in the iron and steel industry

SML is part of Sai Group promoted by Mr. Sitaram Agarwal who has an experience of more than three decades in the iron and steel industry. The day to day operations of SML are looked after by Mr. Dilipp Agarwal and Mr. Deepak Kumar Agarwal (sons of Mr. Sitaram Agarwal), having experience of over two decades in the steel industry. Further, they are supported by a team of professionals.

Location advantage in terms of proximity with source of raw materials as well as end user market for finished goods

The plant location is favorable in terms of ready availability of raw materials. Since, the neighboring states like Jharkhand and Odisha are enriched with iron ore it ensures abundant supply of raw materials in the nearby area resulting in cheaper transportation cost. SML is procuring around 70% to 80% of its raw materials requirements (mainly sponge iron) from its group company Super Smelters Limited (SSL) which is at a distance of only 35km from SML's plant. Moreover, SML's customers are largely located in the state of West Bengal resulting in low transportation cost and timely delivery of products.

Satisfactory capacity utilization

The capacity utilization of both billets as well as rolled products witnessed improvement in FY22 vis-à-vis FY21 on the back of revival in demand of steel products post upliftment of restrictions imposed by the government to curb the spread of Covid-19 in the country in FY21.

Improvement in financial performance in FY22

The total operating income of SML improved substantially by ~68% to Rs. 633.81 crore in FY22 on account of increase in sales volume as well as sales realization of billets and rolled products. The PBILDT margin declined from 5.49% in FY21 to 4.83% in FY22 however; at the absolute level, PBILDT has improved from Rs 20.69 cr to Rs 30.62 crore. Further, the company reported gross cash accrual of Rs 22.96 crore as against nominal debt repayment of Rs 0.96 crore in FY22.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and debt protection metrics
SML doesn't have any term loans except for vehicle loans and the debt largely constitutes working capital debt. Therefore, the capital structure of the company continued to remain satisfactory with overall gearing 0.21x as on Mar 31, 2022 (0.13x as on Mar 31, 2021). This apart, TD/GCA had marginally deteriorated on the back of increase in debt levels due to higher outstanding working capital borrowing as on March 31, 2022 as against March 31, 2021. The capital structure is expected to remain comfortable in the near term in the absence of any debt funded capex by the company.

Key Rating Weaknesses
Exposure to group entity
The book value of equity investment in its group company Giridhan Metal Pvt Ltd (GMPL) remained unchanged at Rs.49.30 cr as on March 31, 2022 (accounting for ~28% of the tangible networth as on March 31, 2022) vis-à-vis March 31, 2021 (~31% of tangible networth as on March 31, 2021). This apart, SML also proposes to provide unconditional and irrevocable corporate guarantee of Rs 806.63 crore (Rs 581.63 crore for term loan and Rs 225 crore for working capital limits) for the bank facilities to be availed by GMPL.
GMPL is setting up an integrated steel plant in Jamuria, West Bengal at a total project cost of Rs 941.11 crore to be funded by term loan of Rs 581.63 crore and remaining through equity. Out of total equity component of Rs.359.47cr, GMPL has already received Rs.345.28 cr till March 31, 2022. Further, the total term debt component of Rs.581.63 cr has been sanctioned, however the company has received disbursement of Rs 228.81 crore till June 14, 2022. As on June 30, 2022, it has incurred ~Rs.570 cr funded out of promoter contribution to the tune of Rs 345.28 crore and remaining through disbursed term loan.
Till date, the company has already commissioned its DRI – I unit along with both the ferro alloy units. It expects to commission DRI – II unit by July'22. While induction furnace and rolling mill are expected to be commissioned by FY23.

Cyclical nature of the steel industry
Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Profitability susceptible to volatility in raw-material and finished good prices
Raw-material and power are the major cost driver for SML. Over the years, raw material consumption remained in the range of 65-80% and power cost remained in the range of 15-25% of total cost of sales. Major raw-materials required are sponge iron, pig iron and scrap. SML procures sponge iron & pig iron from domestic market (mainly from group entity SSL) while scrap is majorly imported against LC. The company sources power requirement from West Bengal State Electricity Development Corporation Limited. Since the raw-material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material and finished goods prices.

Industry Outlook
The disruption in global steel supply is expected to benefit the Indian steel industry. Russia being the major exporter of steel to European Union (EU), the restrictions on the export from Russia to EU will create opportunity for India. In addition, the demand for Indian steel industry will be supported by increased government spending on infrastructure and a gradual economic recovery. The Union Budget 2022-23 has seen an increase of 36% Y-o-Y in allocation of capex at Rs. 7.5 lakh crore. The budget has infrastructure push towards seven engines (roads, railways, airports, ports, mass transport, waterways and logistic infra). Further, the allocation for various schemes like Pradhan Mantri Awas Yojana (PMAY) scheme, Jal Jeevan Mission will have a positive impact on specialty steel and long steel players.

Liquidity: Adequate
SML's liquidity profile is supported by the buffer available in the working capital credit line (sanctioned limit of Rs.62.00 crore). The maximum utilization of fund based working capital limit stood at 59% during last 12 months ended April'22. Further, the company does not have any major debt repayment obligation apart from Rs.0.65 crore for vehicle loan in FY23 against which the company is expected to earn sufficient cash accruals.

Analytical approach: Standalone factoring linkages with SAI group.

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
Rating Methodology: Notching by factoring linkages in ratings
CARE's Policy of Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Steel Companies
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies

About the company

Incorporated in December 12, 2012; Supershakti Metaliks Ltd (SML), part of Sai Group promoted by Mr. Sitaram Agarwal. The company has facilities for manufacturing 135,000 tonnes per annum (TPA) of Billets and 162,000 TPA of rolled products at Durgapur, West Bengal. Two other manufacturing group companies, Super Smelters Limited and Sai Electrocasting Private Limited (SEPL) are located at Jamuria in West Bengal and Koderma in Jharkhand, respectively. All the three companies in the group use 'Super Shakti' brand to market their products.

Brief Financials (Rs. crore)	FY21(A)	FY22 (Abridged)	2MFY23 (A)
Total operating income	376.97	633.81	NA
PBILDT	20.69	30.62	NA
PAT	12.49	17.72	NA
Overall gearing (times)	0.13	0.21	NA
Interest coverage (times)	8.99	8.14	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	62.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	25.00	CARE A2
Non-fund-based - ST-Bank Guarantee	-	-	-	-	25.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	62.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (23-Sep-21) 2)CARE BBB; Stable (08-Jun-21)	1)CARE BBB+; Stable (25-Nov-20)	-
2	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2	-	1)CARE A3+ (23-Sep-21) 2)CARE A3+ (08-Jun-21)	1)CARE A2 (25-Nov-20)	-
3	Non-fund-based - ST-Bank Guarantee	ST	25.00	CARE A2	-	1)CARE A3+ (23-Sep-21) 2)CARE A3+ (08-Jun-21)	1)CARE A2 (25-Nov-20)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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