Supershakti Metaliks Limited
June 08, 2021

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Supershakti Metaliks Limited (SML) takes into account unconditional and irrevocable corporate guarantee proposed to be extended by SML for debt to be availed by to one of its group entity Giridhan Metal Private Limited (GMPL). GMPL proposes to avail such debt to fund the greenfield project of setting up an integrated steel plant in Jamuria, West Bengal at a project cost of Rs.941 crore. The guarantee proposed to be extended is large vis-a vis the size of SML. However, the risk related to the large size of the project gets mitigated to an extent on account of equity funding for the project been already infused and the group having experience of setting up and operating a larger integrated steel unit in the same location.

The rating of SML continues to derive strength from extensive experience of the promoters in the iron and steel industry, strategic location of its manufacturing units with stable capacity utilization, satisfactory capital structure and debt protection metrics marked by low debt levels and healthy liquidity position. The ratings are however constrained by low operating margins, exposure in group company, susceptibility of profit margin to volatility in input and finished goods costs and presence in inherently cyclical steel industry.

Rating Sensitivities

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

- Improvement in scale of operation above Rs.600 crore on sustainable basis.
- Improvement in PBILDT margin above 7% on a sustained basis.

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

- Decline in scale of operations below Rs.400 crore and PBILDT margin below 4% on a sustained basis.
- Deterioration in overall gearing and TD/GCA above 0.50x and 2x respectively on a sustained basis.
- Any substantial debt-funded capex undertaken by the company.
- Any sharp deviation in the progress of the project as envisaged leading to delay in expected cash flows.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters in iron and steel industry

SML is a 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 & 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 favourable in terms of nearby availability of raw materials. Since, the neighbouring states like Jharkhand and Odisha are enriched with iron ore, the steel industry has been flourishing in the region which ensures the abundant supply of raw materials in the nearby area resulting in cheaper transportation cost. SML is procuring around 70% to 80% of its raw material requirements (mainly sponge iron) from its group company Super Smelters Ltd (SSL) which is at a distance of only 35-km from SML's plant. Further, SML's customers are also largely located in the state of West Bengal and nearby area resulting in low transportation cost and timely delivery of products.

Satisfactory capacity utilization in the past

The operations of SML are partially integrated as billets required for manufacturing of Wire rods and HB Wire are manufactured in house. The capacity utilization of both billets as well as rolled products (Wire rods & HB Wire) declined in FY21 compared to FY20 due to outbreak of covid-19 pandemic in March 2020 which led to country-wide lockdown in April and May 2020 leading to shutdown of company's operations till first week of May 2020. This led to lower capacity utilisation during 1st quarter leading to overall decline in capacity utilisation. However the same recovered subsequently from 2nd quarter onwards.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Satisfactory capital structure and debt protection metrics backed by low debt levels
SML doesn't have any term loans apart from vehicle loans and the debt largely constitutes working capital debt. Capital structure of the company has improved, with overall gearing improving from 0.78x as on March 31, 2018 to 0.24x as on March 31, 2020 due to raising of equity upon listing in FY19, accretion of profits coupled with lower utilisation of working capital limits. Accordingly, lower total debt coupled with healthy cash profits led to improvement in TD/GCA from 2.36x as on March 31, 2018 to 1.74x as on March 31, 2020. However, the company has proposed to provide an unconditional and irrevocable corporate guarantee for the debt facilities to be availed by GMPL (group entity) and on factoring the same, the adjusted gearing is expected to deteriorate going forward.

Moderate financial performance with low operating margins
SML reported a growth in revenue by ~47% in FY19 over FY18 on account of both higher sales volume and realizations due to buoyant demand from the end user industries. However, the same declined by 11.53% in FY20 largely due to lower realizations. Despite increase in revenue in FY19, PBILDT margin moderated from 7.28% in FY18 to 4.91% in FY19 due to increase in the raw material cost vis-à-vis increase in realizations. The PBILDT margin further moderated to 2.77% in FY20 incidental to slowdown in the economy and subdued demand for iron and steel. However, the sequential impact of same on PAT was relatively lower and PAT margin decline from 3.32% in FY19 to 2.50% in FY20 mainly on account of excise duty refund. In H1FY21 the company's operation was shut till first week of May 2020 pursuant to covid-19 lockdown and it reported turnover of Rs.152.42 crore as against Rs.263.18 crore in H1FY20. However, the PBILDT margin stood at 4.59% in H1FY21 as against 4.26% in H1FY20.

Key Rating Weaknesses

Exposure to group entity
The company has already infused Rs.49.30 crore in GMPL till March 31, 2021 as against Rs.30 crore as on March 31, 2020. Also, the company 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 wherein GMPL is setting up an integrated steel plant in Jamuria, West Bengal at a project cost of Rs.941 crore.
However, the risk is expected to get mitigated to an extent on account of the promoters having experience of setting up and operating a larger integrated steel unit under Super Smelters Limited (flagship company of the group) in the same location.

Profitability susceptible to volatility in raw-material and finished good prices
Raw-material and power are the largest component of total cost of sales of steel products. Over the last three fiscals raw material consumption remained in the range of 60-70% of total cost of sales and power cost remained in the range of 17-23% of total cost of sales. The company procures power from WBSEDCL. Given that raw-material forms major cost component 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.

Cyclical nature of the steel industry
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. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Industry Outlook
An up-cycle in steel prices is expected to continue in FY22. Stimulus package unveiled by various countries will keep demand for steel high. Absence of China from the world export market and higher import of steel by China is one of the major factor keeping steel prices elevated. Continued higher demand from China on the back of stimulus package and the country's desire to bring down production levels in 2021 to reduce Co2 levels will be an important factor that will strengthen steel prices. Cost push from iron ore prices will remain. Demand-supply imbalance in the global market will also continue to present export opportunities to domestic players.

Liquidity analysis: 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 average monthly utilization of fund based working capital limit stood at 16% during last 12 months ended March 2021. As on March 31, 2021, the free cash and liquid investment stood at Rs.3.89 crore. The liquidity of the company remained comfortable despite increase in fund-based exposure to GMPL. Further, the company does not have any major debt repayment obligation apart from Rs.0.69 crore for vehicle loan in FY22 against which the company is expected to earn sufficient cash accruals. The company has not availed any Covid emergency credit lines.

Analytical approach: Standalone factoring linkage with the SAI group

Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit 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 2012, SML is a 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. The group has two more manufacturing units each in Jamuria (West Bengal) under Super Smelters Limited and Koderma (Jharkhand) under Sai Electrocasting Private Limited. All the three companies in the group sell its products under the brand name 'Super Shakti'.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	530.24	469.09
PBILDT	26.06	12.98
PAT	17.58	11.73
Overall gearing (times)	0.07	0.24
Interest coverage (times)	11.00	3.61

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument/facilities: Not Applicable
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities/Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	25.00	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	62.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (25-Nov-20)	-	-
2.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A3+	-	1)CARE A2 (25-Nov-20)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	25.00	CARE A3+	-	1)CARE A2 (25-Nov-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated instruments: NA

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

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

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

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