

## Supershakti Metaliks Limited (Revised)

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	62.00	CARE BBB+; Stable	Reaffirmed
Short Term Bank Facilities	0.80	CARE A2	Assigned
Short Term Bank Facilities	50.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in the rating assigned to the bank facilities of Supershakti Metaliks Limited (SML) derives strength from extensive experience of promoters in the iron and steel industry, strategic location of plant and satisfactory capacity utilization and financial performance marked by improvement in scale of operations and profitability margin in FY23, comfortable capital structure and debt coverage indicators marked by low reliance on external debt. The rating also takes note of improvement in scale of operations and profitability margins in view of increase in sales volume as well as sales realization of finished products.

The rating is however; constrained by cyclical nature of the steel industry and profitability susceptible to volatility in the prices of raw materials and finished goods. The rating is also tempered by high exposure to its group companies in the form of investments, unsecured loans and corporate guarantee. Any further increase in exposure to group companies will remain key monitorable.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Growth in scale of operations as marked by total operating income of above Rs.700 crores on sustained basis along with increase in PBILDT margins of above 9.00% on sustained basis.
- Substantial reduction in exposure to group company leading to build of liquidity in the company.

#### Negative factors

- Deterioration in the capital structure as marked by overall gearing ratio above 0.50x.
- Any major debt funded capex.
- Any further increase in exposure (other than increase due to MTM) to group companies

### Analytical approach: Standalone, factoring linkages with Sai Group

#### Outlook: Stable

The company is expected to sustain its operational performance amidst strong demand of steel products in the domestic market. Further, negligible debt repayment obligations coupled with absence of debt funded capex in the medium term is expected to continue to support its comfortable capital structure and debt coverage indicators.

### Key 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 has procured around 43% and 51% of its raw materials requirements (mainly sponge iron) from its group companies Super Smelters Limited (SSL) and Giridhan Metal Private Limited (GMPL) respectively which is at a distance of only 35-40 km 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Satisfactory capacity utilization

The capacity utilization (CU) of billets stood stable at 93% in FY23 vis-à-vis 95% in FY22. The capacity of rolled products has increased in FY23 on account of introduction of new value-added product which has led to moderation in CU of rolled products. However, in absolute terms the production of rolled products has increased in FY23 on a y-o-y basis.

### Satisfactory financial performance marked by improvement in scale of operations and profitability margin in FY23

The total operating income of SML improved by around 15% to Rs. 729.85 crore in FY23 (Rs. 633.92 crore in FY22) on account of increase in sales volume as well as sales realization of billets and rolled products. The PBILDT margin improved to 6.87% in FY23 as against 4.89% in FY22 in view of decline in raw material cost and power cost as a percentage of cost of sales. As articulated by management, the company expects reduction in power cost by 50-60 bps going ahead due to completion of 132KVA power line.

### Comfortable capital structure and debt protection metrics

SML doesn't have any term loans apart from vehicle loans hence the debt largely constitutes working capital debt. Capital structure of the company continued to remain comfortable with overall gearing of 0.08x as on March 31, 2023 as against 0.21x as on Mar 31, 2022. This apart, TD/GCA has improved from 1.66x in FY22 to 0.50x in FY23 on the back of repayment of vehicle loan and lower outstanding working capital borrowing as on March 31, 2023 as against March 31, 2022.

### Key weaknesses

#### High exposure in group companies

The company has fund based exposure in group companies in the form of investments and loans & advances. The book value of investments in GMPL is Rs 49.30 crore and the corresponding market value of the same stood at Rs 130.46 crore as on March 31, 2023 as against 96.90 crore as on March 31, 2022. This apart, in FY23, SML has also extended unsecured loan of Rs 42 crore to group company viz Promotional Equity Services Pvt Ltd as on March 31, 2023 (nil as on March 31, 2022). Apart from equity investment in GMPL, SML has also provided unconditional and irrevocable corporate guarantee of Rs.49.30 crore (i.e. book value of investments in GMPL) for the bank facilities availed by GMPL.

GMPL is setting up an integrated steel plant in Jamuria, West Bengal at a total project cost of around Rs 1200 crore (increased from earlier estimate of Rs 941.11 crore due to increase in the scope of the project) to be funded by term loan of Rs 581.63 crore and remaining through equity and internal accruals. The total term debt component of Rs.581.63 cr has been sanctioned and only Rs 10 crore is pending to be disbursed. Till date, the company has already commissioned both the units of DRI, 3 ferro alloy units and part captive power plants. The remaining part of captive power plants has also started with the commencement of cold trial run of induction furnace and rolling mill recently. The entire project is expected to be completed before the documented COD of October 2023.

### 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. The raw material cost accounted for around 75% of the total cost of sales in FY23 (77% in FY22) and power cost accounted for 13% of total cost of sales in FY23 (14% in FY22). Major raw-materials required are sponge iron, pig iron and scrap. SML procures sponge iron and pig iron from domestic market while scrap is majorly imported against letter of credit. The company sources power requirement from West Bengal State Electricity Development Corporation Ltd (WBSEDCL). 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. However, as the company sources its major raw material (viz sponge iron) from group companies, susceptibility of profitability to volatility in the prices of raw materials is mitigated to a large extent.

### 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 51% during last 12 months ended April'23. Further, the company does not have any major debt repayment obligation apart from Rs.0.65 crore for vehicle loan in FY24 against which the company is expected to earn sufficient cash accruals.

### Environment, social, and governance (ESG) risks- Not Applicable

### Applicable criteria

Policy on default recognition

Financial Ratios – Non financial Sector

[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)
[Steel](#)
[Factoring Linkages Parent Sub JV Group](#)

## About the company and industry

### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Incorporated in December 12, 2012; Supershakti Metaliks Ltd (SML) is part of Sai Group promoted by Mr. Sitaram Agarwal. The company has facilities for manufacturing 142,800 tonnes per annum (TPA) of Billets and 252,000 TPA of rolled products at Durgapur, West Bengal. Two other manufacturing group companies, Super Smelters Limited and Giridhan Metal Private Limited (GMPL) are located at Jamuria (West Bengal) while third group company viz Sai Electrocasting Private Limited (SEPL) is located at Koderma (Jharkhand). All the four companies in the group use 'Super Shakti' brand to market their products.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	633.92	729.85
PBILDT	30.99	50.17
PAT	17.72	33.30
Overall gearing (times)	0.21	0.08
Interest coverage (times)	8.24	13.43

A: Audited, Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

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

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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-Bank Guarantee	-	-	-	-	25.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	-	25.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	-	0.80	CARE A2

**Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	62.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Jul-22)	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 A2 (06-Jul-22)	1)CARE A3+ (23-Sep-21)	1)CARE A2 (25-Nov-20)

							2)CARE A3+ (08-Jun-21)	
3	Non-fund-based - ST-Bank Guarantee	ST	25.00	CARE A2	-	1)CARE A2 (06-Jul-22)	1)CARE A3+ (23-Sep-21)  2)CARE A3+ (08-Jun-21)	1)CARE A2  (25-Nov-20)
4	Non-fund-based - ST-Forward Contract	ST	0.80	CARE A2				

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

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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
4	Non-fund-based - ST-Forward Contract	Simple

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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