

STELLARIS SPECIALITIES INDIA LIMITED

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	21.50 (Enhanced from 15.50)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	110.00	CARE BBB; Stable / CARE A3	Reaffirmed
Long Term / Short Term Bank Facilities	60.00 (Enhanced from 25.50)	CARE BBB; Stable / CARE A3	Revised from CARE BBB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Stellaris Specialities India Limited (SSIL – erstwhile Superon Schweissttechnik India Limited) continue to derive strength from the experienced promoters and management team, diversified product profile largely approved by internationally accepted inspection agencies and a diversified customer profile. The ratings also factor in healthy operational performance with consistent improvement in scale of operations and the financial risk profile marked by moderate capital structure. The rating is, however, constrained on account of moderation in operating margin due to raw material price volatility and foreign exchange fluctuation risk along with a highly competitive industry scenario.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in PBILDT (Profit before interest, lease rentals, depreciation and taxes) margin beyond 8% on a sustained basis while consistent growth in the scale of operations.
- Strengthening of liquidity position with improvement in operational cash flow.

Negative factors

- Decline in scale of operations below Rs 450 crore and PBILDT margin below 5.50% exerting pressure on liquidity.
- Any larger than envisaged capex leading to elevated debt level and repayment obligations exerting pressure on profitability and cash flows.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook represents CARE Ratings Limited's (Care Ratings) expectation of sustenance in scale of operations marked by improvement in domestic business and healthy order book for export business.

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

Detailed description of the key rating drivers:**Key strengths****Experienced promoter and management team**

SSIL is managed by Mr. Sharad Mehra, who has over 25 years of experience and holds an MBA degree. The company was previously co-owned by Mr. Sharad Mehra and his brother, Mr. Sanjay Mehra by the name Superon Schweissttechnik India Limited. However, due to a dispute between the families, the brothers approached the National Company Law Tribunal (NCLT) to separate the domestic business. Hence, the NCLT sanctioned a Scheme of Arrangement on July 14, 2023, resulting in the demerger of Stellaris Specialities India Limited into two entities, effective from April 26, 2022. This demerger led to the incorporation of Superon Schweissttechnik Industries Limited, managed by Mr. Sanjay Mehra, which now handles the domestic business for Superon brand. Further, SSIL retained the export business under Superon and has launched its own brand, "Starblaze," for selling products in the domestic market.

Diversified product profile largely approved by internationally accepted inspection agencies

SSIL is engaged in manufacturing of welding electrodes, stainless steel wires, stainless steel non-welding wires and other lubricants since 2004. On account of its long track record of operations, diversified product profile, the company has established itself as a reputed welding electrode manufacturer. During FY24 (refers to April 01 to March 31), welding electrodes contributed around 43% of the total operating income (TOI) and wires segment contributed 57% of the revenue.

Given the critical nature of electrode components for public safety and industry reliability, SSIL holds numerous industry certifications including approvals from Lloyds Register of Shipping and the American Bureau of Shipping for marine applications, Bureau Veritas accreditation for industry norms compliance, FM Approvals for property loss prevention, NAKS approval from Russia's National Agency of Welding Control, and Deutsche Bahn Approvals for railway safety and quality. Hence, these certificate help SSIL in meeting the industry standards of varied global industries.

Diversified customer profile with established selling & distribution network:

SSIL supplies its product to various domestic and international customers. SSIL has a diversified customer base as the top 5 customers contributed around 12% of the total sales in FY24 (PY: 13%). The company has been dealing with its major customers for long time leading to established relationship with them thereby facilitating repeat orders in export markets. During FY24, the export income contributed 64% (PY 84%) of total sales. The company exports to over 95 countries and the major ones include USA, Germany, Russia, UAE and Turkey, among others. Additionally, for domestic business, the company has a network of 100 dealers across India.

Growing scale of operations albeit with moderate profitability

The company reported a 19% growth in total operating income to Rs 639.51 crore in FY24 (PY: Rs 567.44 crore), primarily driven by the growth of its domestic business under the new brand name "Starblaze" following the demerger. This growth resulted from higher volumes and improved price realizations in the electrode and wire segments, along with increased product acceptability in both domestic and international markets. Additionally, post-demerger, SSIL expanded into new markets such as aerosol and household cleaning chemicals.

The PBILDT margin has historically been between 7-8%, standing at 7.04% in FY24 (PY: 7.25%), mainly due to higher freight costs from the Red Sea crisis and increased discounts to promote the new domestic brand. However, the PAT (Profit after tax) margin declined to 3.38% (PY: 3.76%) in FY24 due to higher interest expenses.

Moderate financial risk profile

The overall gearing increased marginally to 1.01x (PY: 0.96x) as on March 31, 2024, on account of new foreign currency loans of Rs 8.60 crore availed by the company. The debt profile of SSIL as on March 31, 2024, comprise of working capital borrowing (around 83% of the total debt outstanding as on March 31, 2024), foreign currency term loans (around 6% of the total borrowing), loan from related party (5% of the total outstanding loan). The working capital borrowings increased from Rs.96.03 crore as on March 31, 2023, to Rs 115.78 crore primarily to fund the growth in scale during FY24 and also on account of increase in collection period from customers. The debt coverage indicators stood comfortable marked by PBILDT interest coverage ratio and total debt/GCA (gross cash accruals) ratio of 4.23x and 5.42x in FY24 respectively (PY: 5.32x and 4.51x respectively).

Key Weaknesses

Foreign exchange fluctuation and raw material prices

The major raw materials for SSIL are mild steel and stainless steel which constitute around 75%- 80% of the total operating income for SSIL and thus fluctuation in raw material prices is critical for the company. Although, any increase in the prices of raw material is passed on to the customers, there is always a considerable lag of around one quarter in the same and any sudden sharp movement might impact the profitability of the company adversely. Further as the company derives around 84% of its revenue from exports and due to lack of any natural hedge is exposed to foreign exchange fluctuation risk. The company primarily uses packing credit in foreign currency which provides it adequate hedge towards its export revenue. SSIL reported gain of Rs 3.70 crore due to foreign currency fluctuation in FY24 as against gain of Rs 5.75 crore in FY23.

Competition in welding industry from domestic and international players

The welding industry comprises welding equipment, consumables, and welding services. The total industry size is estimated to be around ₹10,000-12,000 crore with a share of welding consumables (70%), welding equipment (15%), cutting (10%), and automation (5%). Electrodes and filler metals are the key consumables used in various welding processes. Welding finds wide application in various industries such as automobiles, building & construction, pipelines, and oil & gas. The growth of the welding industry is highly dependent on the consumption of steel in various end-use industries. The factors such as unavailability of raw materials, and growing competition from other Asian countries, specifically South Korea, may hamper the growth of this industry. The key market players have developed their own distribution networks, as distribution is a critical success factor in this industry. Entry of Chinese manufacturers, with their low cost and sophisticated technology, has also resulted in increasing competitive pressures.

Liquidity: Adequate

The liquidity position of the company remains adequate with scheduled repayment of around Rs 4 crore during FY25 against projected gross cash accruals to the tune of Rs 30.96 crore in FY25. The average utilization of WC limits stood at 73% respectively for the trailing 12 months ending August 2024. Further, the company has incurred a capex of Rs 25 crore in FY25 for capacity expansion in Bhiwadi, Rajasthan plant against which debt of Rs 20 crore has been sanctioned while remaining Rs 5 crore would be through internal accruals. With a gearing of 1.01 times as of March 31, 2024, SSIL has sufficient gearing headroom, to raise additional debt for its capex.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

SSIL was incorporated in February 2004 and is managed by Mr. Sharad Mehra. The company is engaged in manufacturing of welding electrodes, stainless steel wires, stainless steel non welding wires and other lubricants which have industrial usage. The domestic business of the company was demerged into a separate legal entity vide NCLT order on July 14, 2023. The company derives 64% of its revenue from export to countries such as USA, Russia, UAE, and Turkey, among others. In domestic business, the company operates via brand name "Starblaze".

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	567.44	639.51	173.56
PBILDT	41.11	45.04	-
PAT	21.32	21.59	-
Overall gearing (times)	0.96	1.01	-
Interest coverage (times)	5.32	4.23	-

A: Audited UA: Unaudited; Note: these are latest available financial results
Q1FY25: refers to April 01 to June 30.

Status of non-cooperation with previous CRA:

CRISIL has placed the rating assigned to the bank facilities of Superon Schweissttechnik India Limited (erstwhile name of Stellaris Specialities India Limited) into Issuer Not Cooperating category vide their press release dated August 24, 2023, on account of their inability to carry out a review in the absence of requisite information.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2029	21.50	CARE BBB; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	60.00	CARE BBB; Stable / CARE A3
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	110.00	CARE BBB; Stable / CARE A3

Annexure-2: Rating history for 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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	110.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (01-Aug-24)	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING * (27-Nov-23)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING * (09-Sep-22)	1)CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING * (15-Mar-22) 2)CARE BBB; Stable / CARE A3 (05-Apr-21)
2	Fund-based - LT-Term Loan	LT	21.50	CARE BBB; Stable	1)CARE BBB; Stable (01-Aug-24)	1)CARE BB-; Stable; ISSUER NOT COOPERATING * (27-Nov-23)	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (09-Sep-22)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING * (15-Mar-22) 2)CARE BBB; Stable (05-Apr-21)
3	Fund-based - LT/ST-Working Capital Limits	LT/ST	60.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable (01-Aug-24)	1)CARE BB-; Stable; ISSUER NOT COOPERATING * (27-Nov-23)	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (09-Sep-22)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING * (15-Mar-22) 2)CARE BBB; Stable (05-Apr-21)

*Issuer did not cooperate; based on best available information.

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	LT/ST Fund-based/non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Annexure-5: Lender details

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

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

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Sajjan Goyal Director CARE Ratings Limited Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sachin Mathur Associate Director CARE Ratings Limited Phone: 91-120-4452054 E-mail: sachin.mathur@careedge.in
	Rohit Bhatia Analyst CARE Ratings Limited E-mail: Rohit.Bhatia@careedge.in

About us:

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