Supershakti Metaliks Limited

September 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	62.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	50.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**112.00 (Rs. One Hundred Twelve Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Supershakti Metaliks Ltd (SML) continues to consider extensive experience of the promoters in the iron and steel industry, strategic location of manufacturing units, satisfactory capacity utilization, satisfactory capital structure and debt protection metrics marked by low debt levels, improvement in profitability margins and healthy liquidity position. The ratings are however constrained by susceptibility of profit margin to volatility in input and finished goods costs and presence in inherently cyclical steel industry. Further the ratings also factor in exposure to its group entity Giridhan Metal Pvt Ltd (GMPL) in the form of investments and corporate guarantee proposed to be extended by SML for debt to be availed by GMPL.

Rating Sensitivities

Positive Factor

- Growth in scale of operations as marked by total operating income of above Rs.500 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 Factor

- 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 iron and steel industry

Supershakti Metaliks Ltd 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 35km 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

The operations of SML are partially integrated as billets required for manufacturing of rolled product. The capacity utilization of both billets as well as rolled products (Wire rods & HB Wire) witnessed decline in FY21 due to outbreak of Covid-19 which impacted the production in Q1FY21. However, in the current year the capacity utilization improved for both Billets and rolled products respectively due to revival in domestic demand.

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 0.24x as on Mar 31, 2020 to 0.18x as on Mar 31, 2021 due accretion of profits coupled with lower debt. Accordingly, lower total debt coupled with healthy cash profits led to improvement in TD/GCA from 1.74x in FY20 to 1.26x in FY21. The capital structure is expected to remain comfortable in the near term due to absence of any debt funded capex by the company

Moderate financial performance albeit improvement in operating margins
The total operating income of SML declined y-o-y by ~19% mainly on account lower sales volumes of finished product due to outbreak of Covid-19 as company's operation were shut till first week of May'2020 coupled with lower trading sales. Despite decline in sales volume, the sales realizations improved during FY21 due to elevated domestic steel prices on the back of favourable international price trends and better end user demand which resulted in improvement in PBILDT margin to 5.95% in FY21 as against 2.77% in FY20. The PAT margin also improved to 3.50% in FY21 as against 2.51% in FY20

Key Rating Weaknesses
Significant 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. This apart, the company 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 project cost of Rs.941 crore which is expected to be funded by term loan of Rs.581.63cr. Out of total term debt component, GMPL had received final sanction of Rs.400cr and in-principal sanction for balance amount. The corporate guarantee is expected to be executed in this fiscal year itself. Out of total equity component of Rs.359.5cr, GMPL has already received Rs.327.45cr till July 31, 2021. As on June 30, 2021, it has incurred Rs.313 cr funded out of promoter contribution. As per the management, GMPL has already commissioned its DRI – I unit entirely through equity contribution and it expects to commission DRI – II unit by January 2022. While due to large size of the project under GMPL, there exists a project risk, 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 years raw material consumption remained in the range of 60-65% of total cost of sales and power cost remained in the range of 17-20% 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
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.

Industry Outlook
CARE Ratings expects the domestic steel demand to grow at a CAGR of about 7.5% during the next 2-3 years. Steel demand will be supported by economic recovery, government spending on infrastructure, revival in capex cycle and enhanced liquidity. The Union Budget for 2021- 2022 has a sharp 34.5% y-o-y increase in allocation for Capex at 5.54 lakh crore. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption.

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 of maximum utilization of fund based working capital limit stood at 30% during last 12 months ended June 2021. 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
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 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 Ltd 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)	FY20 (A)	FY21 (A)
Total operating income	469.09	377.90
PBILDT	12.98	22.48
PAT	11.73	13.23
Overall gearing (times)	0.24	0.18
Interest coverage (times)	3.61	9.88

A: Audited

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

Bank Lender Details: Annexure 5

Annexure-1: Details of Instruments/Facilities

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT*	62.00	CARE BBB; Stable	1)CARE BBB; Stable (08-Jun-21)	1)CARE BBB+; Stable (25-Nov-20)	-	-
2.	Non-fund-based - ST-BG/LC	ST*	25.00	CARE A3+	1)CARE A3+ (08-Jun-21)	1)CARE A2 (25-Nov-20)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST*	25.00	CARE A3+	1)CARE A3+ (08-Jun-21)	1)CARE A2 (25-Nov-20)	-	-

***LT/ST – Long Term/Short Term**

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - 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

Annexure 5: Bank Lender Details
Click here to view Bank Lender Details

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Anil More
Group Head Contact no.- +91-8444867144
Group Head Email ID- anil.more@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no. : +919830386869
Email ID : lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**