Supershakti Metaliks Ltd (Revised)
November 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	62.00	CARE BBB+/Stable [Triple B Plus; Outlook: Stable]	Assigned
Short term Bank Facilities	50.00	CARE A2 [A Two Plus]	
Total Facilities	112.00 (Rupees One Hundred crore and Twelve lakh 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) takes into account 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 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 Factor

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

Negative Factor

- 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 company.
- Any substantial increase in exposure to group entities

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 during the last three fiscals (FY18-FY20)

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) remained satisfactory during the last three fiscals (FY18 to FY20). Although the volumes were impacted during Q1FY21 on account of Covid induced lockdown and slowdown, however it has recovered in Q2FY21.

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 Mar'18 to 0.24x as on Mar'20 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 in FY18 to 1.74x in

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

FY20. 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 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 crs as against Rs.263.18 crs 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

SML has made an equity investment of Rs.30 cr in FY20 in its group company Giridhan Metal Pvt Ltd (GML) which is setting up a steel plant. Further, ~Rs.16 cr was given as advance to group company as on Mar 31, 2020 (as against Rs.7.67 crs as on Mar 31, 2019) for procuring raw material which is in the normal course of business. Any sharp increase in exposure to any group entity will be a key rating monitorable.

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

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 prevailing slowdown in automobile sector is one of the key reasons for subdued performance of steel sector in FY20. Further, in the current year the Covid-19 pandemic has crippled demand in major steel-consuming sectors and impacted steel production globally.

Industry Outlook

CARE expects domestic steel production and consumption to remain steady in H2FY21. For FY21 steel production to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half. While large players have reported faster return to normalcy after covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility.

Liquidity analysis: Adequate

The liquidity position of the group remained satisfactory as evident from fund based working capital limit which stood at 29% during last 12 months ended Sept 2020 indicating availability of unutilized limit. Further the liquidity is also supported by company's free cash & liquid investment of Rs.16.90 crore as on Sept 30, 2020. During FY20, the company generated GCA of Rs.15.60 crs in FY20 against a debt repayment of Rs.0.65 crs (for vehicle loan).

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on 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)	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 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	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 A2
Non-fund-based - ST-Bank Guarantees	-	-	-	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 (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	-	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	25.00	CARE A2	-	-	-	-

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

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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About CARE Ratings:

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