September 30, 2024

Seven Star Steels Limited: Ratings reaffirmed at [ICRA]BBB-(Stable)/ [ICRA]A3; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	15.00	25.00	[ICRA]BBB-(Stable); reaffirmed/ assigned for enhanced amount
Bank Guarantee	1.00	5.00	[ICRA]A3; reaffirmed/ assigned for enhanced amount
Total	**16.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in ICRA's expectation of a comfortable debt-protection metrics of Seven Star Steel Limited (SSSL) in the current fiscal year, despite a challenging operating environment marked by a slowdown in sponge and billet realisation. Despite moderation in realisation the decline in input cost is likely to offset the impact to an extent. While the operating margin is likely to moderate in FY2025 to an extent, the limited debt and no capital expenditure requirement is likely to keep the coverage indicators at a healthy level. In FY2024, the realisations were muted, primarily in the billet division, resulting in significant reduction in the billet's capacity utilization to ~16% in FY2024 compared to ~42% in FY2023. In the current fiscal too, the capacity utilisation in the billet division in unlikely to increase owing to continued pressure on realisation. The sponge iron sales volume increased in the last fiscal and the trend is expected to continue in the current fiscal as well. The ratings also draws comfort from SSSL's captive 12MW power plant and from the assured supply of iron ore at flexible credit terms from its Group company, Penguin Trading & Agencies Limited (PTAL, rated [ICRA]A+ (Stable)/ [ICRA]A1). This mitigates raw material supply risks and enhance the liquidity to an extent.

The ratings, are, however, constrained by SSSL's small scale of operations which have further moderated in the last two fiscals. The ratings further remain constrained by the exposure of the company to the cyclicality inherent in the steel industry and susceptibility of SSSL's profitability to the volatility in raw material prices and end-product realisations. The volatility in raw material prices and end-product realisations. The volatility in raw material prices is mitigated to some extent by obtaining a certain portion of the overall coal requirement through the coal linkage with Mahanadi Coalfields Limited (MCL). The ratings also consider SSSL's lack of adequate vertical integration, and limited product diversity with a limited level of value addition, in turn tempering its profit margins.

The Stable outlook on the long-term rating reflects ICRA's expectations that SSSL will continue to benefit from the favourable demand outlook for long products emanating from the Government's infrastructure investment plans. This, along with its conservative growth plans is expected to keep its credit metrics at comfortable levels in the near term.

Key rating drivers and their description

Credit strengths

Procurement of iron ore at favourable credit terms from Group company enhances raw material security and supports liquidity to an extent – SSSL faces limited risks related to supply of iron ore as its entire iron ore requirement is met from its Group company, PTAL, which has a healthy credit profile and is involved in iron ore mining, thus mitigating the raw material supply risks. Moreover, PTAL extends flexible credit terms to SSSL which can be extended beyond the normal credit period, thus reducing the latter's working capital requirement and supporting its liquidity.

Credit metrics expected to remain healthy, going forward – The financial risk profile of the company remains comfortable because of SSSL's low debt levels. The leverage remained comfortable with debt/OPBDITA of 1.3 times in FY2024 against 0.6 times in FY2023. The coverage indicators also remained healthy with the interest coverage in FY2024 at 13 times vis-a-vis 24 times in FY2023. In the current fiscal, despite moderation, the leverage and coverage indicators are expected to remain healthy.

Conservative capex plans along with prudent capital allocation policy – The promoters of the company follow conservative capex plans and their prudent capital allocation policy further supports SSSL's liquidity profile. Apart from the nominal annual maintenance capex, the company has no other major capex plan in the pipeline.

Presence of captive power plant reduces cost of production to some extent – The company has a captive power plant (CPP) of 12 MW, out of which 6 MW is based on waste heat recovery (WHR) technology and the balance 6 MW is based on atmospheric fluidised bed combustion (AFBC) process. The cost structure of the steel melting operation, which is highly power intensive in nature, is positively impacted by the power available from CPP at a competitive rate.

Credit challenges

Moderation in profitability in FY2024; expected to remain muted in current fiscal as well – The entity's performance had moderated in the last fiscal on account of subdued realisations especially that of billets. The billet's capacity utilization reduced to ~16% in FY2024 compared to ~42% in FY2023. In the current fiscal too, the capacity utilisation in the billet division in unlikely to increase owing to continued pressure on realisation. The sponge iron sales volume increased in the last fiscal and the trend is expected to continue in the current fiscal as well. Consequently, with decline in realisation and higher sales of sponge iron, the operating margin is likely to moderate in FY2025 as well.

Small scale of operations leads to a high operating cost base and makes it susceptible to a period of sustained industry downturns – SSSL's absolute scale of operations remains quite small, which leads to a comparatively higher operating cost base emanating from lower plant efficiency parameters compared to larger integrated steel mills. Given the commoditised nature of the steel business, a structurally higher operating cost base makes the performance of smaller steel companies, like SSSL, susceptible to a period of sustained industry downturns.

Lack of adequate vertical integration, limited product diversification/value addition tempers margins – The company manufactures intermediate products like sponge iron and billets, which are low value added compared to finished steel products, where margins are higher. The competition in the semis segment remain very elevated, leading to low pricing flexibility.

Exposed to cyclicality inherent in the steel industry – SSSL is exposed to cyclicality inherent in the steel industry, which leads to volatility in revenue and cash flows for the industry players, including SSSL. The company's cash flows and profitability would remain volatile mainly because of the fluctuation in steel spreads emanating from the mismatch in price movement of raw materials and end products.

Liquidity position: Adequate

The company's liquidity is expected to remain **adequate** in the short to medium term supported by comfortable cash flow from operations (~Rs. 12-13 crore). The company has negligible capex commitments and no term debt repayments. Additionally, flexible payment arrangements with PTAL further support the liquidity of the company as the credit period for payment (for the supply of iron ore, the key raw material) can be extended beyond normal terms, supporting SSSL's working capital requirements.

Rating sensitivities

Positive factors – ICRA may upgrade SSSL's ratings if there is a substantial improvement in the company's profitability and cash accruals, leading to an improvement in liquidity, credit metrics, and strengthening of the net worth.

Negative factors – Pressure on SSSL's ratings may arise if there is a significant decline in its profits and/or if the company undertakes any sizeable debt-funded capex, which may adversely impact its capital structure and liquidity. Specific credit metrics, which may lead to ratings downgrade, include an interest coverage of less than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron and Steel
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in November 2004, Seven Star Steels Limited (SSSL) commenced commercial operations in June 2007. The company's manufacturing facility is located at Kalendamal, Gudigaon, in the Jharsuguda district of Odisha. It has sponge iron and mild steel (MS) billet manufacturing facilities with installed capacity of 60,000 tonnes per annum (TPA) and 28,800 TPA, respectively, along with an 8-MW captive power plant (4 MW through waste-heat recovery, and 4 MW through atmospheric-fluidised bed combustion). The present promoters (Kolkata-based Bathwal family) took over SSSL's management in 2007. The sponge iron manufacturing capacity of the plant was expanded from 30,000 TPA to 60,000 TPA in February 2008. The captive power plant and the steel-melting facility were commissioned in April 2013 and April 2014, respectively.

Key financial indicators (audited)

	FY2021	FY2022	FY2023	FY2024
Operating income	126.44	206.6	184.0	163.3
PAT	2.63	17.6	13.1	9.6
OPBDIT/OI	9.4%	16.5%	15.4%	11.0%
PAT/OI	2.1%	8.5%	7.1%	5.9%
Total outside liabilities/Tangible net worth (times)	4.35	2.0	1.2	0.6
Total debt/OPBDIT (times)	1.48	0.5	0.6	1.3
Interest coverage (times)	7.76	29.8	24.1	13.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sep 30, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based-Cash Credit	Long term	25.00	[ICRA]BBB- (Stable)	Aug 26, 2024	[ICRA]BBB- (Stable)	Jun 22, 2023	[ICRA]BBB- (Stable)	-	-	Mar 31, 2022	[ICRA]BB+ (Stable)
Short term Non-Fund based-Bank Guarantee	short term	5.00	[ICRA]A3	Aug 26, 2024	[ICRA]A3	Jun 22, 2023	[ICRA]A3	-	-	Mar 31, 2022	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short-term – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	25.00	[ICRA]BBB- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	5.00	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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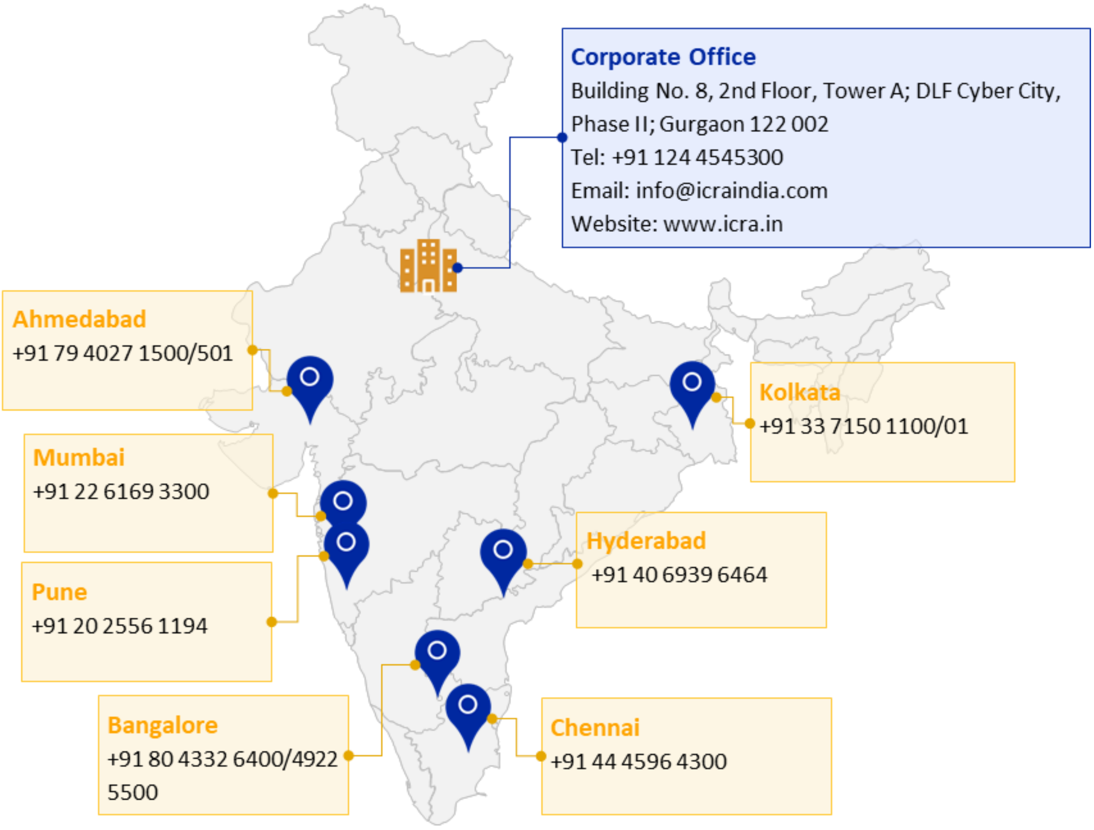

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