

February 16, 2022

Super Smelters Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	700.91	700.91	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Cash Credit	325.00	325.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Letter of Credit/Bank Guarantee	150.00	150.00	[ICRA]A2; Upgraded from [ICRA]A3+
Untied Limits	374.09	374.09	[ICRA]BBB+; Upgraded from [ICRA]BBB(Stable)
Total	1550.00	1550.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade factors in Super Smelters Limited's (SSL) significant increase in earnings in FY2021 and likely healthy earnings growth in FY2022, which will support improvement in credit metrics, going forward. SSL posted an operating profit of ~Rs.349 crore in FY2021, up from ~Rs.236 crore in FY2020, owing to a strong rebound in steel demand post unlocking of the economy. The healthy financial performance continued in 9M FY2022 with the company posting an operating profit of ~Rs.352 crore. ICRA expects SSL's profits to remain at attractive levels in the next 12 months as steel prices continue to remain elevated, supported by the accelerated recovery in steel demand in key global steel consuming hubs outside China. The surge in earnings since FY2021 led to an improvement in the credit metrics with the interest coverage increasing to 3.1 times in FY2021 from 2.0 times in FY2020 and Total Debt/OPBITA declining to 3 times in FY2021 from 4.6 times in FY2020. Notwithstanding a significant increase in input prices (mainly iron ore and imported thermal coal) in the current fiscal, ICRA does not expect any significant deterioration in SSL's operating profits for the remainder of the fiscal as steel prices remain remunerative. Consequently, ICRA expects SSL's interest coverage and Total Debt/OPBITA to further improve to around 4.2 times and 2.4 times in FY2022 full year. The ratings also derive comfort from the extensive experience of the promoters in the steel industry, its diverse product portfolio and the established position of the brand, Super Shakti. While earlier the company's sales were concentrated in the eastern part of the country, SSL, via its various marketing initiatives, has been able to deepen its brand presence across various parts of the country. The ratings continue to derive comfort from SSL's vertically integrated nature of operations starting from production of pellets, sponge iron, billets and rolled products. In addition, it has a 53-MW captive power plant, which meets its power requirement to a large extent, reducing its dependence on external power, and leading to a competitive cost structure. The ratings also consider the elongated maturity of the project debt of SSL, which limits the annual repayment obligations and supports the liquidity profile of the company.

The ratings are, however, constrained by SSL's high working capital intensity of operations emanating from its high inventory holding, which leads to a large capital blockage and exposes the company to inventory write-down risks in the event of a sharp correction in prices. Besides, the company continues to demonstrate a low asset turnover, emanating from a relatively higher cost asset base vis-à-vis its peers. ICRA observes that SSL's low asset turnover and high working capital intensity of operations resulted in sub-optimal business return indicators during periods when steel prices remain less buoyant. The ratings also factor in the modest credit metrics of the company at an absolute level despite improvement witnessed in the last six quarters. The ratings also factor in the intensely competitive nature of the secondary steel industry, which leads to pricing pressure, keeping

margins under check. The ratings further remain constrained by the exposure of the company to the cyclicity inherent in the steel industry and susceptibility of SSL's profitability to the volatility in raw material prices and end-product realisations, although the vertically integrated nature of operations reduces the vulnerability to an extent.

The Stable outlook on the long-term rating reflects ICRA's expectations that SSL will continue to benefit from the favourable operating environment for the steel industry, which is expected to support the company's deleveraging efforts, in turn strengthening its credit metrics over the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in steel industry with an established brand presence – Incorporated in 1995, SSL is the flagship company of the Sai Group, which is involved in the steel manufacturing business. The Group also has other steel manufacturing companies with smaller capacities. SSL is an established player with a track record of over two decades. The company sells TMT bars under the brand name, Super Shakti. While earlier the company's sales were concentrated in the eastern part of the country, SSL, via its various marketing initiatives, has been able to deepen its presence across various parts of the country.

Vertically integrated nature of operations with capacity to manufacture pellets, sponge iron, pig iron, billets and rolled products – SSL's manufacturing facilities are vertically integrated, starting from pellet production, sponge iron manufacturing, billet casting and rolling. In addition, it has a 53-MW captive power plant, which meets its power requirement to a large extent, reducing its dependence on external power, and leading to a competitive cost structure. The vertical integration in operations lends to considerable operational efficiency and flexibility of changing the product mix as per market demand. In addition, availability of own railway sidings aids in smooth transportation of raw materials and associated savings in logistics costs.

Significant increase in earnings to support improvement in credit metrics – Supported by a strong rebound in steel demand post unlocking of the economy, SSL posted an operating profit of ~Rs.349 crore in FY2021, increasing from ~Rs.236 crore in FY2020. The healthy financial performance continued in 9M FY2022 with the company posting an operating profit of ~Rs.352 crore. ICRA expects SSL's profits to remain at attractive levels in the next 12 months as steel prices continue to remain elevated, supported by the accelerated recovery in steel demand in key global steel consuming hubs outside China. The surge in earnings since FY2021 led to an improvement in the credit metrics with the interest coverage increasing to 3.1 times in FY2021 from 2.0 times in FY2020 and Total Debt/OPBITA declining to 3 times in FY2021 from 4.6 times in FY2020. Notwithstanding the significant increase in input prices (mainly iron ore and imported thermal coal) in the current fiscal, ICRA does not expect any significant deterioration in SSL's operating profits in the remainder of the fiscal as steel prices remain remunerative. Consequently, ICRA expects SSL's interest coverage and Total Debt/OPBITA to further improve to around 4.2 times and 2.4 times in FY2022 full year.

Extended repayment tenure of project debt supports the liquidity profile – The elongated maturity of the project debt with a door-to-door tenure of 17 years limits the annual repayment obligations and supports the liquidity profile of the company.

Credit challenges

High working capital intensity of operations emanating from high inventory holding – The company's working capital intensity of operations, as reflected by the net working capital vis-à-vis the operating income (NWC/OI), has remained high historically and stood at 56% in FY2020 and 48% in FY2021 due to its high inventory holding period. The inventory days of the company stood at 208 and 192 in FY2020 and FY2021, respectively, which were much higher than its peers. Such high level of

inventory holding leads to sizeable capital blockage and exposes the company to inventory write-down risks in the event of a sharp correction in prices.

Low asset turnover along with high inventory holding suppresses business return indicators – The company’s return indicators (RoCE) are impacted by the low asset turnover emanating from a relatively high-cost asset base vis-à-vis its peers. ICRA observes that SSL’s low asset turnover and high working capital intensity of operations resulted in sub-optimal business return indicators during periods when steel prices remain less buoyant.

Credit metrics remain at modest levels despite improvement – Notwithstanding the improvement in credit metrics witnessed in the last six quarters supported by the surge in earnings since FY2021, the same remain at modest levels on an absolute basis owing to the company’s strategy of balancing growth capex with its deleveraging targets. Going forward, SSL’s ability to channelise a larger share of its cash flows towards accelerated deleveraging would remain crucial from the credit perspective.

Competitive nature of the industry likely to keep margins under check – SSL is a secondary steel producer and derives the major portion of its revenue from semi-urban and rural areas. The fragmented nature of the long product/semis industry and intense competition from other organised as well as unorganised players are likely to keep its margins under check.

Exposed to cyclicity inherent in the steel industry – SSL is exposed to cyclicity inherent in the steel industry, which leads to volatility in revenue and cash flows for the industry players, including SSL. The cash flows and profitability of the company would remain volatile largely because of the fluctuation in steel spreads emanating from the mismatch in price movement of raw materials and end products. However, the vertically integrated nature of SSL’s operations reduces the earnings volatility to an extent.

Liquidity position: Adequate

SSL’s liquidity position has been assessed as **adequate** with undrawn working capital lines of around Rs.114 crore as of December end, 2021 and healthy retained cash flows expected over the medium term. The company has capex commitments of around ~Rs. 80-90 crore and debt repayment obligations of ~Rs.58 crore in FY2022, which are expected to be largely funded through retained cash flows of around Rs.120 crore as well as some drawdown of working capital lines. Overall, SSL’s elongated debt maturity profile and calibrated capex plans are expected to support the company’s liquidity profile, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade SSL’s ratings if the company is able to achieve significant deleveraging from the present levels and demonstrate reduction in working capital intensity. Specific metrics which could lead to ratings upgrade include TD/OPBDITA of less than 2 times on a sustained basis.

Negative factors – Pressure on SSL’s ratings could arise if there is a significant fall in revenue/profits and/or large debt-funded capex/PE buyout, leading to a deterioration in debt protection metrics. Specific metrics which could lead to ratings downgrade include TD/OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SSL.

About the company

Incorporated in 1995, Super Smelters Limited (SSL) is a part of the Sai Group, promoted by Mr. Sita Ram Agarwal. The company has facilities for manufacturing 1.2 million tonnes per annum (MTPA) of iron ore pellets with 1.8 MTPA grinding/beneficiation facility, 420,000 tonnes per annum (TPA) of sponge iron, 442,080 TPA of billet/slab, 28,500 TPA of ferro alloys and 240,000 TPA of rolled products. The company also has captive power plants (CPP) of 53 MW. The manufacturing facilities of the company are located at Jamuria in West Bengal. Two other manufacturing group companies, Supershakti Metaliks Limited and Sai Electrocasting Private Limited are located at Durgapur in West Bengal and Koderma in Jharkhand, respectively, were parts of SSL earlier. Together, they have a combined capacity of 2,65,000 TPA billets and 2,81,000 TPA of rolled products.

Key financial indicators (Audited)

SSL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1262.6	1599.4
PAT (Rs. crore)	42.3	116.4
OPBDIT/OI (%)	18.7%	21.8%
PAT/OI (%)	3.4%	7.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.3
Total Debt/OPBDIT (times)	4.6	3.0
Interest Coverage (times)	2.0	3.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019				
								Feb 16, 2022	Nov 3, 2020	Dec 23, 2019	Jan 18, 2019	Jan 8, 2019
1	Term Loan	Long Term	700.91	630.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB+ (Stable)
2	Cash Credit	Long Term	325.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
3	Letter of Credit/Bank Guarantee	Short Term	150.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+
4	Untied Limits	Long Term	374.09	-	[ICRA] BBB+ (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Letter of Credit/Bank Guarantee	Very Simple
Untied Limits	NA

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	FY18	NA	FY35	700.91	[ICRA]BBB+(Stable)
NA	Cash Credit	NA	NA	NA	325.00	[ICRA]BBB+(Stable)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	150.00	[ICRA]A2
NA	Untied Limits	NA	NA	NA	374.09	[ICRA]BBB+(Stable)

Source: Company;

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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