Press Release

Mongia Steel Limited

November 24, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Ratings	Rating Action
Long Term Fund Based Bank Facilities	31.00	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable outlook)	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable outlook)	Reaffirmed
Short Term Non-Fund Based Bank Facilities	8.00	IVR A2 (IVR Single A Two)	IVR A2 (IVR Single A Two)	Reaffirmed
Total	**39.00**			

Details of Facilities are in Annexure 1

Detailed Rationales

- The reaffirmation of the rating to the bank facilities of Mongia Steel Limited (MSL) has continued to derive comfort from its experienced promoter with long track record, synergies between the group companies coupled with the backward integration for TMT bars, established Brand with diversified distribution network and improvement in profitability metrics leading to healthy financial risk profile. The rating strengths are partially offset by volatility in the prices of raw materials and finished goods, geographical concentration risk and high competition and cyclicality in the steel industry.

Upward Factors

- Substantial growth in scale of business with consistency in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter with long track record

MSL was promoted by Mr. Gunwant Singh Saluja in the year 1995. He looks after the day to day activities along with his son, Mr. Harinder Singh Saluja. Mr. Gunwant Singh Saluja has close to four decades of experience in the steel industry. Further, MSL itself has a track record of more than twenty years in the steel industry and started manufacturing of TMT bars since 2003.

Synergies between the group companies coupled with the backward integration for TMT bars

In 2004, the promoters incorporated Santpuria Alloys Private Ltd (SAPL) to provide backward integration for MSL. SAPL is mainly involved in the manufacture of sponge iron from iron pellets. SAPL employs a kiln to melt the iron ore / pellets to manufacture sponge iron. Its entire production is consumed by MSL in its manufacturing process. The entire production of SAPL is sold to MSL. A majority of the sponge iron requirement for the MSL plant is fulfilled by the plant of SAPL. The manufacturing facilities of both MSL and SAPL are located within a distance of 3-4 kms of each other in the District of Giridih in Jharkhand. The plants are located in close proximity to the raw material suppliers that fulfil their requirement of iron pellets, pig iron, melting scrap and coal.

Established Brand with diversified distribution network

The company markets its TMT bars under the brand “Mongia Steel ES Power”. The company has been able to establish its brand over the course of the last 16 years with a focussed advertising campaign to raise brand awareness and recall. MSL has built up a network of around 600 dealers & 1000 sub dealers.

Improvement in profitability metrics leading to healthy financial risk profile

The financial risk profile of MSL is healthy marked by its comfortable net worth, moderate gearing with moderate presence of long-term debt in the capital structure and healthy debt protection metrics. The net worth stood healthy at Rs. 68.84 crore as on March 31, 2020. Debt equity stood comfortable at 0.34 times as on March 31, 2020 as compared to 0.37 times in as on March 31, 2019. The overall gearing ratio stood comfortable at 0.81x as on March 31, 2020 against 0.83x as on March 31, 2019. Total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 2.01x as on March 31, 2020. The interest coverage ratio improved to 6.61 times in FY20 from 4.82 times in FY19. Total debt to GCA also remained comfortable at 3.71 years in FY20.

Key Weaknesses

Volatility in the prices of raw materials and finished goods

The costs of raw materials and finished goods are volatile in nature and hence, MSL’s profitability is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

Geographical concentration risk

MSL has a presence in Jharkhand, Bihar, Uttar Pradesh, Orissa, West Bengal and the north eastern region. But the states of Jharkhand and Bihar together contributed around 86% of its sales in FY20. Hence, the company is exposed to geographical concentration risk. The company has begun efforts to strengthen its brand presence and grow its sales in the markets of Uttar Pradesh and Orissa.

High competition and cyclicality in the steel industry

The Mongia group mainly operates in the Eastern part of India, which is known as the steel hub of the country. The company faces stiff competition from not only established players, but also from the unorganised sector as there is a low level of product differentiation. But, the Mongia group has been able to establish a strong presence with its brand. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. But, the outlook for the steel industry in the short to medium term appears to be good with robust demand in the domestic markets.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing/Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: **Adequate**

The liquidity position of the company is adequate marked by the sufficient gross cash accruals expected Rs 18.84 crores to Rs 24.76 crores as against debt obligations of Rs 2.76 crores per year. MSL has comfortably leverage capital structure leading to comfortable position of the company to serve the debt obligations. Further, company has reported comfortable operating cycle of 38 days as on March 31, 2020 which further mitigates the risk of volatility in the steel sector. Average working capital utilization for the last 12 months stood at around 83% reflecting cushion to meet incremental requirements.

About the Company

Incorporated in 1995 as Mongia Hi-Tech Private Ltd, Mr. Gunwant Singh Saluja took over complete control of the company around 2000. The company was later renamed as Mongia Steel

Ltd (MSL). The company is engaged in the manufacture and trading of steel products. Its manufactured products include TMT bars, Billets, Mild Steel (MS) tube, MS profile, MS guide channel, MS angle, springs, pipes, etc. The principal product of MSL is Thermo Mechanically Treated (TMT) bars. The company sells the TMT bars under the brand name "Mongia Steel ES Power".

Financials (Standalone): (Rs. crore)

For the year ended*	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	344.03	406.46
EBITDA	15.59	21.38
PAT	5.89	11.61
Total Debt	47.67	55.72
Tangible Net worth	57.19	68.84
EBITDA Margin (%)	4.53	5.26
PAT Margin (%)	1.71	2.85
Overall Gearing Ratio (x)	0.83	0.81

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by Brickwork Ratings, vide press release dated October 05, 2020 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	26.00	IVR BBB+ / Stable Outlook	IVR BBB+ / Stable (November 18, 2019)	IVR BBB+ / Stable (May 30, 2018)	-
2.	Stand by line of credit	Long Term	5.00	IVR BBB+ / Stable Outlook	IVR BBB+ / Stable	IVR BBB+ / Stable	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
					(November 18, 2019)	(May 30, 2018)	
3.	LC/BG	Short Term	8.00	IVR A2 (IVR Single A Two)	IVR A2 (November 18, 2019)	IVR A2 (May 30, 2018)	

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	Revolving	26.00	IVR BBB+ / Stable Outlook
Long Term Bank Facilities- Stand by line of credit	-	-	Revolving	5.00	IVR BBB+ / Stable Outlook
Short Term Bank Facilities- LC/BG	-	-	Revolving	8.00	IVR A2 (IVR Single A Two)