

**Press Release**

**Shree Nakoda Ispat Limited**

**March 17, 2020**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (INR Crore)</b>	<b>Rating Assigned</b>
1.	Fund Based Facility – Cash Credit	48.19	IVR BBB+/ Stable outlook (IVR Triple B Plus with stable outlook)
2.	Fund Based Facility – Term Loan	176.84	IVR BBB+/ Stable outlook (IVR Triple B Plus with stable outlook)
3.	Fund Based Facility - Bill Discounting (Against LC)	12.00	IVR A2 (IVR A Two)
4.	Non-Fund Based Facility – Bank Guarantee	7.20	IVR A2 (IVR A Two)
5.	Non-Fund Based Facility – Letter of Credit	40.00	IVR A2 (IVR A Two)
	<b>Total</b>	<b>284.23</b>	

**Details of Facilities are in Annexure I**

**Detailed Rationale**

The rating derives strength from experienced management team, cost structure supported by integrated operations, Diversified client base, Healthy growth in operating revenues & range bound EBIDTA and Approved with various Central and State departments leading to strong brand value. The rating however is constrained by working capital intensive operation and high competition and cyclicity in the steel industry

## Key Rating Sensitivities

### Upward revision factors:

Substantial & sustained improvement in revenue and/or profitability leading to improvement in debt protection metrics

### Downward revision factors:

Any decline in revenue and/or profitability leading to deterioration in debt protection metrics.

## List of key rating drivers with detailed description

### Key Rating Strengths

- **Experienced management team:**

The company is being managed by experienced directors. Collectively, they have rich experience in the industry and were instrumental in developing the company. Having operated in industry since years now, the management has established a strong network with suppliers and customers. The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background.

- **Cost Structure Supported by Integrated Operations:**

The company manufactures and sells TMT Bars, Iron sponge, Billets and Silicon; a portion of Iron sponge, Billets and Silicon are captively consumed for the production for their end product, TMT Bars which result in substantial cost saving vis-à-vis costs associated with procurement from external sources. The Company has also installed a Coal Washery for up gradation of coal for use in Sponge Iron Plant. The Company possess 26 MW Power Plant for captive consumption. The surplus of the materials produced are sold in the market at market prices. Its product portfolio mainly includes Iron sponge (21.05% of total revenues; {FY18: 20.88%}), Billets (5.90% of total revenues {FY18: 5.60%}), TMT Bars (60.82% of total revenues {FY18: 61.60%}) and Silicon (12.23% of total revenues {FY18: 11.92%}) in FY19.

- **Diversified client base:**

With promoters' extensive experience, established network of the distributors, the company has been able to gather a diversified client base. The top 5 customers of the company account for 24.88% of the sales indicating a diversified client base.

- **Healthy growth in operating revenues and range bound EBIDTA:**

The Company's topline is on a steady increase with a CAGR of 23.3% in the last three years ended FY19, in FY19 it increased y-o-y 32.94% to INR 552.69 Crore from INR 415.76 Crore in FY18. As company has established a good presence in the regions it operates, given the promoters' strong relationships established with the distribution network over the years. EBIDTA margins of the company remain range bound between 13.00% - 14.00% over a period of last 4 years.

- **Approved with various Central and State departments leading to strong brand value:**

The company's major product, TMT Bar is approved with various Central and State departments such as RDSO (Research Design & Standard Organization) (Indian Railway), Delhi Metro Rail Corporation, South East Central Railway, Maharashtra Metro Rail Corporation Ltd, Department of Atomic Energy, Raipur Development Authority and others. The approval of the product with various Central and State departments leads to establishing a strong brand value for the product.

## Key Rating Weaknesses

- **Working capital intensive operation**

Operations of the company are working capital intensive. The average inventory holding period, though improved from 101 days in FY17 to 85 days in FY18, primarily on account of holding of coal and iron ore pellets. The debtor collection days improved from 55 days in FY17 to an acceptable level of 64 days in FY18 and 48 days in FY19.

- **High competition and cyclicity in the steel industry**

The company is exposed to risks such as global steel industry performance, local regulations/duties, trade wars, etc. However, the company has been able to establish a strong presence with the quality of its products. 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 stable.

## Analytical Approach & Applicable Criteria

Standalone

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

### **Liquidity: Adequate:**

The current ratio and quick ratio remained comfortable at 1.49x and 1.72x respectively as on March 31, 2019. The company's cash flow from operation also remains adequate. The liquidity of the company expected to remain Adequate in the near to medium term in view of sufficient cash accruals in comparison to debt repayment

### **About the Company**

Shree Nakoda Ispat Ltd. is a Limited Company taken over by Goel Group of Raipur in February 2003. The company is engaged in the manufacture and trading of steel products. Its manufactured products include Sponge Iron, Billets, TMT Rebars, Silico Manganese and Ferro Manganese The principal product of the company is Thermo Mechanically Treated (TMT) bars. The company sells the TMT bars under the brand name "NAKODA TMT"

### **Financials (Standalone)**

**INR Crore**

<b>For the year ended* / As On</b>	<b>31-03-2018 (Audited)</b>	<b>31-03-2019 (Audited)</b>
Total Operating Income	415.76	552.69
EBITDA	58.57	71.38
PAT	11.87	19.56
Total Debt	319.34	240.56
Tangible Networkth	62.46	79.93
EBITDA Margin (%)	14.09	12.92
PAT Margin (%)	2.84	3.53
Overall Gearing Ratio (x)	5.11	3.01

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**Any other information: N.A**

**Rating History for last three years:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	48.19	IVR BBB+/ Stable outlook (IVR Triple B Plus with stable outlook)	--	--	--
2.	Fund Based Facility – Term Loans	Long Term	176.84	IVR BBB+/ Stable outlook (IVR Triple B Plus with stable outlook)	--	--	--
3.	Fund Based Facility - Bill Discounting (Against LC)	Short Term	12.00	IVR A2 (IVR A Two)	--	--	--
4.	Non-Fund Based Facility – Bank Guarantee	Short Term	7.20	IVR A2 (IVR A Two)	--	--	--
5.	Non-Fund Based Facility – Letter of Credit	Short Term	40.00	IVR A2 (IVR A Two)	--	--	--
<b>Total</b>			<b>284.23</b>				

**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](http://www.infomerics.com).

**Name and Contact Details of the Analysts:**

Name: Ms. Shreshtha Singhvi

Tel: (022) 62396023

Email: [ssinghvi@infomerics.com](mailto:ssinghvi@infomerics.com)

Name: Mr. Amit Bhuwania

Tel: (022) 62396023

Email: [abhuania@infomerics.com](mailto:abhuania@infomerics.com)

**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. Company's long

experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an ‘as is where is’ basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated 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**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (INR Crore)</b>	<b>Rating Assigned/ Outlook</b>
Cash Credit	--	--	On Demand	48.19	IVR BBB+/ Stable outlook (IVR Triple B Plus with stable outlook)
Term Loans			December 2024	176.84	IVR BBB+/ Stable outlook (IVR Triple B Plus with stable outlook)
Bill Discounting (Against LC)			Upto 12 months	12.00	IVR A2 (IVR A Two)
Bank Guarantee			Upto 12 months	7.20	IVR A2 (IVR A Two)
Letter of Credit			Upto 12 months	40.00	IVR A2 (IVR A Two)