



Press Release

NRVS Steels Limited

March 30, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Ratings Action
1.	Long Term Bank Facilities	47.91 (enhanced from Rs.40.00 crore)	IVR BBB+/Positive (IVR Triple B plus with Positive Outlook)	Reaffirmed
	Total	47.91 (Rupee Forty seven crore and ninety one lakh)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the rating assigned to the bank facilities of NRVS Steels Limited (NRVS) continues to derive comfort from the extensive experience of the Group's promoters in iron and steel industry with semi-integrated nature of operations of the group, strategic location of plant and increase in scale of operations with improvement in profitability. The ratings also positively factor in NR group's satisfactory financial risk profile marked by satisfactory gearing and comfortable debt protection metrics. However, these rating strengths remain constrained due to exposure to project stabilisation risks and susceptibility of group's profitability to volatility in raw material and finished goods prices. The ratings also consider high competition and cyclical nature in the steel industry. The outlook is positive as the NR group's scale of operations and profitability are expected to improve further on the back of enhanced capacity, backward integrations measures, improving demand and hike in domestic steel prices.

Key Rating Sensitivities

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics

Downward Factors



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- Decline in operating income and/or profitability impacting the debt coverage indicators
- Withdrawal of subordinated unsecured loans amounting to Rs.33.27 crore and/or moderation in the capital structure
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and resourceful promoters**

The promoters of the NR group, the Agarwal family of Basna have more than two decades of experience in the iron and steel industry. Currently, Mr. Sanjay Kumar Agarwal (Director) and Mr. Rajesh Kumar Agarwal (Director) with more than two decades of experience in the iron and steel industry is at the helm of affairs of the company. The promoters have also supported the group by infusing subordinated unsecured loans as and when required to support the business operations. Further, interlinked operation of the group companies supports the business risk profile of the NR group to a large extent and generate synergic benefits.

- **Semi-integrated nature of operations of the group and strategic location of plants**

The manufacturing plants of the group are located in Raigarh, Chhattisgarh. Chhattisgarh is a mineral rich state and known as a steel hub of the country. NRIPPL is a semi- integrated steel player engaged manufacturing sponge iron, billets and thermo mechanically treated (TMT) bars with a captive power plant. However, NRTMT engaged in manufacturing of MS billets and TMT bars derives ~60% of its sponge requirements from NRVS. NRVS is selling its product at arm-length price to NRTMT. The distance between two plants is less than 20 KM. NRVS procures raw materials (i.e. iron ore) mainly from Odisha. Accordingly, vertical integration in operations coupled with proximity to the source of raw materials & end user market provides a competitive edge to the NR Group.

- **Growth in scale of operations with improvement in profitability**



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The NR Group's total operating income increased from ~Rs.331 crore in FY18 to ~Rs. 682 crore in FY19. The growth is driven by commencement in production in NRTMT in FY18, acquisition of Seleno Steels Limited (NRVS) in September 2018 and enhancement in production capacity under NRTMT (by introducing 1,10,000 MT of TMT) and increasing capacity by 4 folds to 1,80,000 MT of Sponge Iron under NRVS. However, in FY20, operating income moderated by ~12% due to lower sales realisation. Besides, sales in March month of 2020 were also affected by the outbreak of covid-19 pandemic. However, the group's absolute EBIDTA has increased more than two times from Rs.33.32 crore in FY18 to Rs.69.72 crore in FY20. The EDITDA margin was impacted in FY19 due to compromise in margin to achieve higher sales volume in a competitive operating spectrum, increase in raw material prices along with high overhauling expenses incurred in NRVS plant (acquired during FY19) to improve the operational efficiency. In FY20, the NR Group's EBITDA margin rebounded sharply by 368 bps to 11.58% from 7.90% in FY19 supported by moderation in input prices, capacity enhancement and improved vertical integration. Till October 2020, NR group achieved revenue of ~Rs. 321 crore.

- **Satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics**

The NR group on a combined basis, has satisfactory financial risk profile, treating the subordinated unsecured loans (Rs.33.27 crore outstanding as on March 31, 2020) as neither debt nor equity, the long term debt equity and the overall gearing ratio of the group stood satisfactory at 0.63x and 0.87x respectively as on March 31,2020 [0.44x and 0.80x as on March 31,2019]. The long-term debt has been increased in NRVS due to capacity expansion, impacting the group level long term gearing, however the same remained comfortable. The debt protection parameters reflected by the interest coverage ratio remained comfortable and improved from 4.71x in FY19 to 5.78x in FY20 driven by significant improvement in absolute EBIDTA. Further, the Total debt to GCA also remained comfortable at 2.79x in FY20. Total indebtedness of the group as reflected by TOL/TNW remained comfortable at 1.09x as on March 31, 2020.

Key Rating Weakness:

- **Vulnerable to project stabilisation risks**



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The group has successfully completed its expansion project by setting up a billet plant having capacity of 51,600 M.T along with a 15 M.W Waste Heat Recovery Boiler (WHRB) Plant for captive power consumption at a total cost of ~Rs.55.00 crore under NRVS. The project has been funded by term loan of Rs.35 crore and balance Rs. 20 crore by promoter's contribution in the form of equity, subordinated unsecured loans and internal accruals. Though the commercial operations of the project has started from October 2020, it is exposed to stabilization risks.

- **Volatility in the prices of raw materials and finished goods**

Major raw-materials required for the group are iron-ore and coal for manufacturing of sponge iron. Raw-material accounted for ~75-80% of total cost of production in the last three fiscals. The group lacks backward integration for its basic raw-materials (iron ore and coal). Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the group is susceptible to fluctuation in raw-material prices. On the other hand, the finished foods are also volatile and dependent upon economic cycles and global demand supply scenarios. Currently, about ~60% of NRTMT's sponge iron requirement is supplied from NRVS and balance is procured from outside market.

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

The group faces stiff competition from not only established players, but also from the unorganised sector. Besides, the steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with expected robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector. However, any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact the NR group adversely.

Analytical Approach: Consolidated

For arriving at the ratings, Infomerics has considered the combined financials of three companies constituting the NR Group considering the same management and strong operational and financial linkages. The list of companies is given in **Annexure 2**.

Applicable Criteria:



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Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the NR group is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals of Rs.54-64 crore as against its repayment obligations of Rs.13-19 crore during FY21-23. Moreover, the average working capital limit utilisation was ~52% during the past twelve months ended October 2020 indicating sufficient liquidity buffer.

About the Company

NRVS was acquired by NR group in FY18. The company is presently engaged in manufacturing of Sponge Iron and MS Billets with installed capacity of 180000 MTPA and 51600 MTPA respectively. In addition, it has also set up 15 MW WHRB-based power plant for captive consumption. Its manufacturing facility is located at Raigarh (Chhattisgarh).

About the Group

The promoters of NR Group have been in the iron and steel business for more than 20 years. The NR group is engaged in manufacturing of steel products through various companies under its folds. The companies operating under NR Group are N.R. Ispat & Power Private Limited (NRIPPL), NRTMT (India) Private Limited (NRTMT) and NRVS Steels Limited (NRVS), which are all controlled by the similar management and have common control.

Financials (Combined)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	681.95	602.21
EBITDA	53.87	69.72
PAT	19.03	24.88
Total Debt	98.48	128.06
Tangible Net worth	122.42	147.01
EBITDA Margin (%)	7.90	11.58
PAT Margin (%)	2.78	4.13
Overall Gearing Ratio (x)	0.80	0.87

*Classification as per Infomerics' standards.



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Financials (Standalone) For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	170.98	257.15
EBITDA	19.42	29.83
PAT	5.42	10.59
Total Debt	35.60	71.04
Tangible Net worth	51.26	61.55
EBITDA Margin (%)	11.36	11.60
PAT Margin (%)	3.17	4.11
Overall Gearing Ratio (x)	0.69	1.15

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

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 (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned	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.	Term Loan	Long Term	22.91	IVR BBB+/ Positive	IVR BBB+/ Positive (January 27, 2021)	-	-	-
2.	Cash Credit	Long Term	25.00	IVR BBB+/ Positive	IVR BBB+/ Positive (January 27, 2021)	-	-	-



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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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Term Loan	-	-	June 2026	22.91	IVR BBB+/ Positive
Cash Credit	-	-	-	25.00	IVR BBB+/ Positive
Total				47.91	

Annexure 2: List of companies considered for consolidated analysis

Name of the Company	Consolidation Approach
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N.R. Ispat & Power Private Limited (NRIPPL)	Full consolidation
NRTMT (India) Private Limited (NRTMT)	Full consolidation
NRVS Steels Limited (NRVS)	Full consolidation

