Press Release

Mono Steel India Limited

March 30, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	52.00	IVR BBB+ (Credit Watch with Developing Implications) (IVR Triple B Plus under Credit watch with developing implications)	Rating Revised from IVR A-/Stable (IVR Single A Minus with Stable Outlook) and placed under Credit watch
Short Term Bank Facilities – Bank Guarantee/Letter of Credit	218.00	IVR A2 (Credit Watch with Developing Implications) (IVR A Two under Credit watch with developing implications)	Rating Revised from IVR A2+ (IVR A Two Plus) and placed under Credit watch
Total	**270.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Mono Steel India Limited (MSIL) primarily considers sharp moderation in its performance marked by significant decline in its total revenue, profits and cash accruals in FY20. Meanwhile, the ratings continue to derive comfort from its experienced promoters, partially integrated manufacturing facility, and established brand with strong distribution network. The ratings also consider steady cash flows from the solar power plant and comfortable capital structure of the company despite moderation in debt protection metrics in FY20. However, these rating strengths continues to remain partially offset by intense competition in its operating spectrum and exposure to foreign currency fluctuation risk. Besides, the overall profitability remains vulnerable to fluctuations in raw material and finished goods prices along with exposure to cyclicality in steel industry.

Infomerics expects that the financial performance of the company to improve in FY21 with improvement in total operating income and profitability. However. the ratings were placed under credit watch with developing implications owing to uncertainty in the operating scenario due to possible second wave of COVID. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

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
- Sustenance of the capital structure and improvement in debt protection metrics with interest coverage ratio remained over 3.5x

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators, deterioration in working capital management
- Moderation in the capital structure with overall gearing to above 1.5x
- Improvement in liquidity and operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the steel industry

MSIL's promoters have long-standing experience in the steel industry. Apart from steel industry, the promoters have business interest in various other sectors like ship breaking, oxygen plant, mining, steel & scrap trading. Presently, Mr. Jaisukhbhai Mavjibhai Shah and Mr. Bhupatbhai Mavjibhai Shah, brothers by relation both having an experience of around three decades in the steel industry are at the helm of affairs of the company.

Operational efficiency by virtue of having partially integrated manufacturing facility

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. MSIL's backward integration to produce billets to meet a part of its raw material requirement for TMT coupled with 12MW captive power generation capacity utilizing waste heat recovered from the sponge iron kilns, which is meeting about 60% of its power requirements. Access to captive power also plays a vital role in terms of operational integration due to energy intensive nature of manufacturing and leads to cost optimisation. Partially integrated nature of operation provides a competitive edge over other regional re-rollers without backward integrated facilities.

Established brand and marketing arrangements

The company produces ISI marked billets and premium grade ISI marked TMT bars. Products of MSIL are approved by many government, semi-government and private organizations. It sells TMT bars under the brand name of 'Mono TMT'. The brand is well established in the state of Gujarat as well as in the nearby regions. Further, the company has developed a well-established marketing network with around 150-200 dealers and distributors to sell TMT bars in the state of Gujarat. From FY17, MSIL also started export of billets and TMT bars which has received a good response from the market. However, due to intense competition in the overseas market and the sudden outbreak of COVID 19 pandemic, the export sales dampened in FY20. MSIL exports its products to Indonesia, Sudan, Dubai, South Africa, Mauritius, Kenya etc.

Steady cash flow from solar power plant and low counter party risk

MSIL has established a 10 MW Solar power plant under Government of Gujarat Policy -2009 in FY12. The company has entered in a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited at rate of Rs.15 per Kwh for first 12 years and Rs.5 for the remaining 13 years which provides sound revenue visibility along with low counter party risk, GUVNL being the off-taker. The company has a steady revenue of ~Rs.24.30 crore in FY20 from its solar power plant which is sufficient to service its debt obligations which imparts comfort to the credit risk profile of the company.

Financial profile characterised by conservative capital structure marked by strong net worth base leading to satisfactory gearing albeit moderation in debt protection metrics in FY20

The capital structure of the company remained comfortable underpinned by its strong net worth base of Rs.220.79 crore as on March 31, 2020 and lower reliance on debts. To arrive at the net worth, Infomerics has considered unsecured loans from promoters/ directors amounting to Rs.23.68 crore of as quasi equity as the same is subordinated to the bank facilities. The overall gearing ratio continued to remain comfortable and stood at 0.67x as on March 31, 2020. (0.51x as on March 31, 2019 and 1.01x as on March 31, 2018). Apart from its working capital limits the company also use fixed deposit backed overdrafts to fund its working capital requirements. Moreover, total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 1.07x as on March 31, 2020 (0.75x as on March 31, 2019). However, due to decline in overall profitability, the debt protection metrics moderated with interest coverage ratio at 2.16x (4.08x in FY19) and total debt to GCA at 8.46x (2.91x in FY19) in FY20. Going forward, Infomerics believes the financial risk profile to remain healthy as MSIL has lower reliance on external debt and maintained a conservative capital structure.

Key Rating Weaknesses

Moderation in financial performance in FY20

Total operating income witnessed a sharp y-o-y decline from Rs.1644.48 crore in FY19 to Rs.1027.34 crore in FY20 due to slowdown in the steel industry leading to decline in volume sales as well as sales realisation of all the products manufactured by the company, i.e., sponge iron, billets and TMT bar. Further, the decline in TOI is also attributable to the fact that the billet furnace was not running optimally in first and second half of FY20 resulting in replacement of the entire furnace. The new furnace started commercial production from December – 2020. Also, the sudden outbreak of COVID 19 pandemic and the ensuing lockdown from March 22, 2020 onwards added to the decline in TOI in FY20. As a result, absolute EBITDA declined substantially from Rs.57.39 crore in FY19 to Rs.23.84 crore in FY20 leading to decline in EBITDA margin from 3.49% in FY19 to 2.32% in FY20. PBT margin also declined substantially from 1.69% in FY19 to 0.14% in FY20 due to decline in absolute EBITDA. Consequently, PAT margin also witnessed a substantial decline from 1.27% in FY19 to 0.04% in FY20. GCA also moderated from Rs.39.56 crore in FY19 to Rs.17.58 crore in FY20. The sales picked up in FY21 with MSIL achieving a PBT of Rs.5.74 crore on a TOI of Rs.1001.51 crore during 9MFY21.

Susceptibility of operating margin to volatility in raw material prices and finished goods

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw materials required for manufacturing billets are coal, iron ore and sponge iron while billets are the main raw material for producing TMT bars. MSIL uses both sponge iron and billets as captive consumption for manufacturing of billets and TMT bars respectively. However, it does not have any backward integration for its basic raw materials (iron ore & coal) and has to purchase the same from open market. MSIL mostly procure imported coal from local importers. Moreover, it also procures some part of its billet requirements from the open market. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices. (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including MSIL.

Foreign currency fluctuation risk

MSIL had export sales of Rs.110.98 crore in FY20 which constituted around 11% of the total sales of the company (Rs.430.04 crore in FY 19). Further, the company is largely dependent on imports of coal. Consequently, the company remains exposed to the fluctuations in forex rates. Due to the presence of both exports and imports, there exists natural hedging. However, in absence of proper hedging policy the company is exposed to foreign currency fluctuation risk.

Cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including MSIL. 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. Further, the company’s operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity profile of MSIL is expected to remain adequate with its satisfactory cash accruals vis a- vis its debt repayment obligations and a cash and cash equivalent balance of Rs.1.39 crore as on December 31, 2020. The current ratio of the company was also comfortable at

1.43x as on March 31, 2020. However, the average cash credit utilisation of the company remained almost fully utilised during the past 12 months ended January, 2021 indicating a limited liquidity cushion. In spite of the same, the company has sufficient gearing headroom due to its comfortable capital structure.

About the Company

Incorporated in 1992, Gujarat based Mono Steel India Limited (MSIL) is engaged in manufacturing of sponge iron, billets and TMT bars with an installed capacity of 1,20,000 MT of sponge iron, 1,00,000 MT of billets and 1,00,000 MT of TMT bars. The company also has a 12MW (6MW each for Waste Heat Recovery System and Coal based thermal plant) captive power plant to support its operation. The steel manufacturing unit of the company is located at Dist. Kutch, Gujarat. Moreover, the company also has a 10MW Solar Power plants located at Una near Diu. The power plant of the company is having a PPA with Gujarat Urja Vikas Nigam Limited (GUVNL) for 25 years.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	1644.48	1027.34
Total Income	1646.64	1032.10
EBITDA	57.39	23.84
PAT	20.84	0.46
Total Debt	114.95	148.74
Adjusted Net worth	223.67	220.79
EBITDA Margin (%)	3.49	2.32
PAT Margin (%)	1.27	0.04
Overall Gearing Ratio (x)	0.51	0.67

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

CRISIL has moved the rating of MSIL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 19, 2020.

Brickwork Ratings has moved the rating of MSIL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated July 29, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

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	52.00	IVR BBB+ (Credit Watch with Developing Implications)	IVR A-/Stable (December 31, 2019)	-	-
2.	Bank Guarantee/Letter of Credit	Short Term	218.00	IVR A2 (Credit Watch with Developing Implications)	IVR A2+ (December 31, 2019)	-	-

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 Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	52.00	IVR BBB+ (Credit Watch with Developing Implications)
Short Term Bank Facilities – Bank Guarantee/Letter of Credit	-	-	-	218.00	IVR A2 (Credit Watch with Developing Implications)