Press Release

Shree Nakoda Ispat Limited (SNIL)

March 24, 2021

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action
1.	Fund Based Facility – Cash Credit	48.19	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed
2.	Fund Based Facility – Term Loan	167.64 (reduced from 176.84	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed
3.	Fund Based Facility – Bill Discounting (Against LC)	12.00	IVR A2 (IVR A Two)	Reaffirmed
4.	Non-Fund Based Facility – Bank Guarantee	7.20	IVR A2 (IVR A Two)	Reaffirmed
5.	Non-Fund Based Facility – Letter of Credit	40.00	IVR A2 (IVR A Two)	Reaffirmed
6.	Proposed Long Term Fund Based Facility	9.20	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
	Total	**284.23**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating to the bank facilities of Shree Nakoda Ispat Limited (SNIL) continues to derive strength from its experienced management team, favourable cost structure supported by integrated operations, diversified client base, steady growth in operating revenue long with range bound EBITDA, comfortable debt protection metrics, approved with Central and State Government departments leading to establish strong brand value. However, working capital intensive nature of operation, high competition and cyclicality in the steel industry are the rating constraints.

Key Rating Sensitivities:

Upward rating factor(s):

- Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics.

Downward rating factor(s)

- Any decline in revenue and/or profitability impacting the debt protection metrics or liquidity.

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 two decades of experience in the industry, and 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 materials produced is sold in the market at market prices. Its product portfolio mainly includes Iron sponge (29% of total revenues; {FY19: 21%}), Billets (6% of total revenues {FY19: 6%}), TMT Bars (54% of total revenues {FY19: 61%}) and Silicon (11% of total revenues {FY19: 12%}) in FY20.

- **Diversified client base:**

With promoter's 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 ~31% of the sales in FY20 and ~20% in case of FY21 (9MFY21) indicating a diversified client base structure.

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

The Company's top line is on a steady increase with a CAGR of 10% from FY17-20, in FY20 the overall operating income declined to ~11% with substantial decline in the realization value of the steel products at ~13% even though overall volume increase was observed in FY20 as compared to FY19 and subsequently with the effect of PANDEMIC observed globally from March, 2020 onwards which in all impacted the operating income of the company. In FY20 the overall operating income was INR490.09 Crore as compared to INR552.69 Crore in FY19. Overall, the 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. EBITDA margin was 13.45% as compared to 12.92% in FY19.

- **Comfortable debt protection metrics**

The overall gearing and other debt coverage indicators of the company are improving. The overall gearing ratio of the company has improved to 1.75x in FY20 from 1.95x in FY19. The long-term debt to equity stood at 1.52x in FY20 and 1.66x in FY19.The TOL to TNW stood at 3.53x in FY20 from 3.63x in FY19. The TOL to ATNW stood at 2.48x in FY20 and 2.51 in FY19. The Interest coverage ratio stood at 1.94x in FY20 and 1.93x in FY19. The improvement can be attributed to scheduled repayment of term debt.

- **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 to state a few 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 raw material holding period, increased from 70 days in FY19 to 94 days in FY20, primarily on account of holding of coal and iron ore pellets inventory required in the manufacturing process of TMT Bars and with the nation-wide lockdown announced in the month of March, 2020 with which the overall inventory and finished goods holding period got increased. Overall cash conversion cycle got increased from 77 days in FY19 to 94 days in FY20 backed by increase in debtor days, inventory and raw material holding period.

- **High competition and cyclicality 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 positive.

Analytical Approach &Applicable Criteria:

Standalone

Rating methodology for manufacturing companies

Financial ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company is earning comfortable level of GCA and the same is expected to increase with increase in scale of operations and level of margin. This indicates adequate degree of liquidity of the company in meeting its obligations. Average working capital limit of the company remained utilized to the extent of ~83% (in case of Bank of Baroda) and ~88% (in case of Indian Bank) during the past 12 months ended February 27, 2021. The free cash & cash equivalent was INR8.84 Crore as on March 31, 2020. The current ratio remained comfortable at 1.49x as on March 31, 2020. Liquidity is expected to remain adequate.

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:

(INR. Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	552.69	490.09
EBITDA	71.38	65.93
PAT	19.56	4.68
Total Debt	253.24	235.99
Tangible Net-worth	90.14	94.82
EBITDA Margin (%)	12.92	13.45
PAT Margin (%)	3.53	0.95
Overall Gearing Ratio (x)	1.95	1.75

**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 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (March 17, 2020	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Facility – Cash Credit	Long Term	48.19	IVR BBB+/ Stable outlook	IVR BBB+/ Stable outlook		--

2.	Fund Based Facility – Term Loan	Long Term	167.64 (reduced from 176.84	IVR BBB+/ Stable outlook	IVR BBB+/ Stable outlook		
3.	Fund Based Facility – Bill Discounting (Against LC)	Short Term	12.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)		
4.	Non-Fund Based Facility – Bank Guarantee	Short Term	7.20	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)		
5.	Non-Fund Based Facility – Letter of Credit	Short Term	40.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)		
6.	Proposed Long Term Fund Based Facility	Long Term	9.20	IVR BBB+/ Stable outlook	--		
	Total		**284.23**				

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

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 (INR. Crore)	Rating Assigned/ Outlook
Fund Based Facility – Cash Credit	--	--	Revolving	48.19	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
Fund Based Facility – Term Loan	--	--	Up to June, 2025	167.64 (reduced from 176.84	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
Fund Based Facility – Bill Discounting (Against LC)	--	--	Up to 12 months	12.00	IVR A2 (IVR A Two)
Non-Fund Based Facility – Bank Guarantee	--	--	Up to 12 months	7.20	IVR A2 (IVR A Two)
Non-Fund Based Facility – Letter of Credit	--	--	Up to 12 months	40.00	IVR A2 (IVR A Two)
Proposed Long Term Fund Based Facility	--	--	--	9.20	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)