Press Release

Uttranchal Ispat Private Limited

March 12, 2021

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities – Cash Credit	21.00	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Assigned
Total	**21.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Uttranchal Ispat Private Limited (UIPL) derives comfort from its experienced promoters with partially integrated plant with capabilities to manufacture both billets and TMT bars. The ratings also factor in comfortable capital structure albeit moderation in debt protection metrics in FY20 and moderate working capital management. However, these rating strengths are partially offset by moderation in its financial performance in FY20 coupled with thin profit margins, susceptibility of operating margin to volatility in input costs, intense competition and exposure to cyclical nature of the steel industry.

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 TOL/TNW remained below 2x and interest coverage ratio remained over 2x
- Effective working capital management with improvement in operating cycle and liquidity

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in the capital structure with overall gearing to above 1x and interest coverage to below 2x
- Elongation in the operating cycle impacting the liquidity and 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 promoters

UIPL was incorporated in 2001 by Uttarakhand based Mr. Sanjeev Jindal and Mr. Rajeev Jindal who are also the Directors of the company. They have an experience of over a decade in the steel industry through their association with another associate company Shree Ambuja Casting Private Limited which is engaged in manufacturing of MS Ingot. They are actively involved in managing the day-to-day operations of the company along with the support of qualified and experienced professionals.

Partially integrated plant with capabilities to manufacture MS billets and TMT bar

The company has an integrated capacity with both Billet plant and a TMT manufacturing capacity. Going forward, integrated capacities will likely to enable the company to enjoy better profitability.

Comfortable capital structure albeit moderation in debt protection metrics in FY20

The debt profile of the company consists of only fund based working capital borrowings. The capital structure remained comfortable with overall gearing of 0.80x as on March 31, 2020 (0.79x as on March 31, 2019). However, due to decline in overall profitability, the debt protection metrics moderated with interest coverage ratio of 1.75x (5.58x in FY19) and total debt to GCA of 18.46x (5.60x in FY19) in FY20.

Moderate working capital management

The operating cycle of the company though increased from 46 days in FY19 to 72 days in FY20, yet remained moderate. The increase in the operating cycle in FY20 was a one time phenomenon and was on account of increase in collection period from 25 days in FY19 to 49 days in FY20 due to the fact that the sudden breakdown of the pandemic led to slowdown in realization from debtors which in turn resulted in substantial increase in debtors as on the account closing date. The sundry debtors increased from Rs.17.20 crore as on March 31, 2019 to Rs.27.12 crore as on March 31, 2020. Further, the company maintains around one month inventory in hand as a regular business practice for smooth functioning of operations. Also, the company majorly purchases its raw material in cash and advances basis leading to low creditors period of 11 days in FY20 (17 days in FY19).

Key Rating Weaknesses

Moderation in financial performance in FY20 coupled with thin profit margins

Total Operating Income declined significantly from Rs.204.04 crore in FY19 to Rs.163.56 crore in FY20 due to slow down in the steel industry leading to decline in volume sales as well as average sales realisation per ton of TMT bar which is the major revenue generating product of the company. Also, the sudden outbreak of COVID 19 pandemic and the ensuing lockdown in March, 2020 added to the decline in TOI in FY20. As a result, absolute EBITDA declined from Rs.5.25 crore in FY19 to Rs.3.01 crore in FY20 resulting in decline in EBITDA margin from 2.57% in FY19 to 1.84% in FY20. Further, on account of significant increase in interest cost from Rs.1.07 crore in FY19 to Rs.1.76 crore in FY20 due to higher utilisation of working capital limits, PBT margin declined substantially from 1.45% in FY19 to 0.12% in FY20. Consequently, UIPL incurred a net loss of 0.14% in FY20 as against a PAT margin of 0.94% in FY20. GCA also moderated from Rs.3.61 crore in FY19 to 1.10 crore in FY20. During 9MFY21, UIPL achieved a turnover of Rs.112.33 crore with PBT of Rs.0.86 crore.

Susceptibility of the operating margin to volatility in input costs

The key raw materials of the company – MS scrap and sponge iron, had shown a volatile trend over the years. Any adverse movement in the prices of raw material can have an adverse impact on the operating margins of the company. However, the same is partially passed on to the customers.

Intense competition from the fragmented and commoditized steel market

Given the commoditized nature of the product, the TMT business is characterised by intense competition across the value chain due to low product differentiation, which limits the pricing flexibility of the players.

Exposure to cyclicality inherent in the steel industry

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on company's performance in view of UIPL's direct linkage to the fortunes of Steel industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

<u>Liquidity - Adequate</u>

The liquidity profile of UIPL is expected to remain adequate with its satisfactory cash accruals vis a- vis its debt repayment obligations. The current ratio of the company was also comfortable at 1.48x as on March 31, 2020. The average cash credit utilisation of the company also remained comfortable at ~48% during the past 12 months ended December, 2020 indicating adequate liquidity cushion. The company also has sufficient gearing headroom due to its comfortable capital structure.

About the Company

Incorporated in February 2001, Uttranchal Ispat Private Limited (UIPL; formerly known as Uttaranchal Ispat Limited) is engaged in manufacturing of steel products namely, MS Ingots, MS Channels, Angles and thermos-mechanically treated (TMT) bar. The manufacturing facility of the company is located at Industrial Area, Bazpur, Uttarakhand with an installed capacity of 1.15 lakhs MTPA.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	204.04	163.56
Total Income	204.51	163.86
EBITDA	5.25	3.01
PAT	1.91	-0.22
Total Debt	20.22	20.28
Tangible Net worth	25.59	25.34
EBITDA Margin (%)	2.57	1.84
PAT Margin (%)	0.94	-0.14
Overall Gearing Ratio (x)	0.79	0.80

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

Brickwork Ratings has moved the rating of UIPL 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 September 01, 2020.

CRISIL has moved the rating of UIPL 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 April 09, 2020.

CARE Ratings has moved the rating of UIPL 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 January 17, 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	21.00	IVR BB+ /Stable	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: hdidwania@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@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. 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.

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	-	-	-	21.00	IVR BB+ /Stable