



## Press Release

### Millenium Steel India Pvt. Ltd.

June 9, 2021

#### Ratings

| Instrument / Facility              | Amount  | Rating  | Rating Action |
|------------------------------------|---|---|---------------|
| Long Term Bank Facilities          | 4.25  | IVR BB- ; Stable (Double B Minus; Stable Outlook) | Assigned      |
| Long term proposed Bank Facilities | 4.75  | IVR BB- ; Stable (Double B Minus; Stable Outlook) | Assigned      |
| Short Term Bank Facilities         | 16.00   | IVR A4 (A Four)                                   | Assigned      |
| <b>Total</b>                       | <b>25.00</b><br><b>(Twenty five crore only)</b> |   |               |

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The assigned ratings to the bank facilities of Millenium Steel India Pvt. Ltd. (MSIPL) factors in the extensive experience of the promoters in the steel and coal trading industry. Further, the ratings also consider the diversified product portfolio along with the company's presence in the major markets of South India as also reputed supplier base especially in the steel segment. The assigned ratings also factors the comfortable capital structure and debt protection metrics which are likely to sustained in the near term mainly in absence of debt raising plans. However, the ratings are constrained due to consistent revenue decline in past fiscals, the inherent low profit margins due to trading nature of business which also remain vulnerable to the fluctuations in raw material price movements and highly fragmented industry marked by intense competition.

#### Key Rating Sensitivities:

##### Upward Factors

- Sustained growth in sales and profitability metrics
- Improvement in the capital structure and debt protection metrics with the interest coverage above 2x.

##### Downward Rating Factor

- Substantial decline in operating income also adversely impacting profitability
- Any substantial borrowings significantly impacting the credit metrics
- Any substantial stretch in the operating cycle impacting the liquidity of the business.



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Extensive experience of the promoters in the steel and coal trading industry**

MSIPL's operations are managed by Mr. Hariprasad Reddy Duvvuru, Mrs. Jyothi Duvvuru and Mr. Hemanth Kumar Reddy Duvvuru. The promoters have an experience of over a decade in the steel and coal industry. Long presence in the industry has helped the company in establishing comfortable relationship with its suppliers and customers translating in year on year repeat orders on the customer side and favorable credit terms with the majority of suppliers respectively.

##### **Diversified product portfolio and presence in the major markets of South India**

The company deals in the trading of various commodities mainly iron, steel, steam coal and cement. The company operations are spread out to major states of South India including Chennai, Kochi, Bengaluru, Nellore and Muthyalapadu. With a view of revenue diversification, the company has ventured to coal mining industry in FY2020 and has clocked a sizeable income in FY2021.

##### **Reputed supplier base especially in the steel segment**

The company procures iron and steel from Rashtriya Ispat Nigam Limited (RINL), Prakash Ferrous Industries Pvt Ltd. among others. MSIPL imports coal from Indonesia and South Africa through Krishnapatnam port and Chennai port. The company sells these iron and steel products to the construction entities in Tamil Nadu while coal is sold to thermal power stations, cement companies in this region among others. In the mining segment, it clears the coal excavated from the mines of any debris and hands over the cleared coal to the transporter assigned.

##### **Comfortable capital structure and debt protection metrics**

The debt profile comprises mostly of working capital facilities from the banks. The overall gearing ratio has remained comfortable at 0.63x as on March 31, 2020 and 0.46 x as on March 31, 2021. The low debt encumbrance primarily have led to adequate debt protection metrics as indicated by interest coverage ratio was satisfactory at 2.18x as on March 31, 2021 (vis-à-vis 1.68x as on March 31, 2020). These debt metrics are likely to be sustained in near term given the absence of any debt raising plans and profitability remaining in line with past fiscals in absence of any material change in product mix or operations.



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### **Key Rating Weaknesses**

#### **Revenue decline in past fiscals**

The total operating income witnessed a decline from Rs.183.25 crore in FY2019 to Rs.103.68 crore in FY2020 and subsequently to Rs. 75.57 crore in FY2021 due to consistent decline in the sale of TMT bars and coal. The demand for these products remains indexed to the performance of construction and core infrastructure industries like power, cement etc. respectively, the recovery in the same remains crucial for MSIPL's revenue growth. TMT and Coal contributed ~61% of the total operating income in FY2021(P) as compared to around 92% and 100% in FY2020 and FY2019, respectively. The company in the recent fiscals has focused on mining operations in Karnataka to diversify its revenue base. Thus, it recorded revenues of Rs.29.34 crore in FY2021(P) i.e. ~21 % of its total operating income vis a vis 7.86% in FY2020.

#### **Inherent low profit margin due to trading nature of business which also remain vulnerable to the fluctuations in raw material price movements**

MSIPL's profit margins have remained low due to its trading nature of business. The company reported EBIDTA margin in the range of 1.14%-2.75% during the last FY2018-FY2021. The profitability also remains vulnerable to sharp fluctuations in products dealt, any major fluctuations in the same which the company is not able to further pass on may deteriorate the margins.

#### **Highly fragmented industry marked by intense competition**

The steel and coal trading segments are highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits the company's pricing flexibility and bargaining power.

#### **Liquidity - Adequate**

MSIPL liquidity remains adequate with no repayment obligations in near term and headroom in the cash credit limits (average twelve month utilisation at ~ 73%) providing liquidity comfort. However, the significant working capital requirements of the company have been largely supported by creditors. However, the also the cash accruals remained modest at Rs.0.81 crore as on March 31, 2021.



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**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non- Financial Sector)

### About the Company

Tamil Nadu-based, Millenium Steel India Pvt Ltd (MSIPL) was incorporated on 9th February 2005 by Mr. Hariprasad Reddy Duvvuru along with Mrs. Jyothi Duvvuru and Mr. Hemanth Kumar Reddy. The company commenced its operations as a trading organisation in two verticals i.e. Steel and Coal. The company mainly deals in construction related TMT bars and other related iron steel products which is procured locally and supplied to traders, builders and developers in construction industry. MSIPL has branches in Chennai, Nellore, Chittoor, Bangalore and Ernakulum.

### **Financials: Standalone**

**(Rs. crore)**

| For the year ended*/ As on | 31-03-2020 | 31-03-2021  |
|----------------------------|------------|-------------|
|                            | Audited    | Provisional |
| Total Operating Income     | 103.68     | 75.57       |
| EBIDTA                     | 2.83       | 1.74        |
| PAT                        | 0.96       | 0.71        |
| Total Debt                 | 6.48       | 5.08        |
| Adjusted Net worth         | 10.22      | 10.93       |
| EBIDTA Margin (%)          | 2.73       | 2.31        |
| PAT Margin (%)             | 0.92       | 0.94        |
| Overall Gearing Ratio (x)  | 0.63       | 0.46        |

\*as per Infomerics standards ; #Tax for FY21 has not been considered in the PAT

**Status of non-cooperation with previous CRA:**

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No. | Name of Instrument/ Facilities | Current Ratings (Year 2021-22) |                                |                  | Rating History for the past 3 years     |   |   |
|---------|--------------------------------|--------------------------------|--------------------------------|------------------|---|---|---|
|         |                                | Type                           | Amount outstanding (Rs. Crore) | Rating           | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 |
| 1.      | Cash Credit                    | LT                             | 4.25                           | IVR BB- / Stable | -                                       | -                                       | -                                       |
| 2.      | Letter of Credit/ BG           | ST                             | 16.00                          | IVR A4           | -                                       | -                                       | -                                       |
| 3.      | Proposed                       | LT                             | 4.75                           | IVR BB- / Stable | -                                       | -                                       | -                                       |



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

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### About Infomerics:

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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          | -                | -                | -             | 4.25                         | IVR BB- / Stable         |
| Short Term Bank Facilities         | -                | -                | -             | 16.00                        | IVR A4                   |
| Proposed Long Term Bank Facilities | -                | -                | -             | 4.75                         | IVR BB- / Stable         |



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**Annexure 2: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Lender-Millennium-Steel-India.pdf>

