Hindupur Steel & Alloys Private Limited

August 12, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	123.18 (Enhanced from 57.75)	IVR BBB+, Positive (IVR Triple B Plus with Positive outlook)	Re-affirmed with revision in outlook from Stable to Positive	Simple
Total	**123.18 (Rupees one hundred and twenty-three crores and eighteen lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Hindupur Steel & Alloys Private Limited (HSAPL) considers the close operational and financial linkages between Niros Ispat Private Limited, Hindupur Steel & Alloys Private Limited and MR Enterprises (commonly referred as Niros group). While reaffirming the ratings, Infomerics has taken a consolidated view of these entities. The reaffirmation in the ratings assigned to the bank facilities of HSAPL considers steady improvement in financial performance of the group in FY22 (provisional) with its comfortable capital structure and adequate debt protection metrics backed by infusion of unsecured loan by the promoters. Further, the ratings continue to derive comfort from the group's established track record of operations under an experienced management, locational advantage and integrated nature of the steel plant along with coal linkage with South Eastern Coalfield Ltd (SECL). However, these rating strengths are partially offset by exposure to intense competition, susceptibility of margins to fluctuations in raw material prices, working capital intensive nature of operation and exposure to cyclicality in the steel industry. The revision in the outlook from 'Stable' to

'Positive' considers expected improvement in the financial performance of the company in the near to medium term.

Key Rating Sensitivities:

Upward factors

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity
- Sustenance of the capital structure with improvement in debt protection metrics on a sustained basis

Downward Factors

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by stretch in receivables, or sizeable capital expenditure weakens the liquidity.
- Any unplanned capex and /or deterioration in overall gearing to over 3x and/or moderation in interest coverage ratio to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record and longstanding experience of the promoters**

Niros group has an established operational track record in the steel industry. Over the years, the company had established healthy relationship with its customers and suppliers. Niros Ispat Pvt Ltd is managed by experienced directors namely Mr. Anil Kumar Agrawal and Mr. Siddeshwar Prasad Agrawal, who have an established track record of more than two decades in Iron & steel industry. Hindupur Steel & Alloys Pvt Ltd is managed by Mr Ganesh Kumar Agrawal (Brother of Mr Anil Agrawal) and Mr Nitin Agrawal. Over the years, the promoters through their extensive expertise have grown its business multi folds. Further to increase its presence in Iron & Steel sector the group has floated MR Enterprises into manufacturing of Billets & TMT. Mr. Nirman Agarwal and Mr Tushar Agarwal (Sons of Mr

Anil Agarwal) are the partners in the firm. Therefore, the whole group is managed by the Agrawal family of Chhattisgarh. All of them together looks after the overall functioning of the group.

- **Infusion of unsecured loan**

The Promoters and their relatives have infused unsecured loans on a regular basis to provide financial support to the company. The unsecured loans, which are subordinated to the bank lines, stood at Rs. 116.40 Crore as on March 31, 2022 out of which Rs.12.44 crore is infused during FY22.

- **Integrated steel plant and coal linkage with SECL**

The group as a whole is a fully integrated steel unit, i.e. the group manufactures all the products in the steel chain - Sponge Iron, Billets, Captive power plant and rolled & flat products which enables the company to withstand the cyclical nature of the steel industry as well as enable the company to achieve higher profitability margins. The group has a 8MW WHRB captive power plant which helps in substantial savings in the power cost and thus gives a competitive edge to the company. Moreover, the integrated nature of operations supports operating efficiencies and aids in weathering the cyclicality in the steel industry. Moreover, the group has linkages with South Eastern Coalfields Ltd (SECL) for the supply of Coal and with NMDC for the supply of Iron ores which offers advantages in terms of price and also ensures uninterrupted supply of coal & Iron ores which are critical raw materials in the steel industry.

- **Locational Advantage**

The plants of Niros Ispat Pvt Ltd & M R Enterprises are located in the industrial area of Bhilai, Chhattisgarh, which is in close proximity to various steel plants and sources of raw materials (coal, iron ore, sponge iron etc). Further the plants are well connected through road & rail transport which facilitates easy transportation of raw materials & finished goods. Proximity of the plants to the source of raw material and the end market results in controlled transportation cost. The plant of Hindupur Steel & Alloys Pvt Ltd is located at Gollapuram Village in Andhra Pradesh. HSAPL mainly caters to the southern part of India (especially

Karnataka & Andhra Pradesh) , this helps the group to diversify its revenue streams and minimize the geographical concentration risk.

- **Healthy improvement in total operating income**

The group's total operating income witnessed a healthy y-o-y growth of ~49% in FY22 to Rs. 1853.88 crore backed by increase in demand of steel products post covid period leading to better capacity utilization and higher average sales realisation. The EBITDA margin of the group continues to remain moderate at 4.61% in FY22. However, driven by improvement in absolute EBITDA coupled with decline in depreciation and finance charges the PAT margin in FY22 (Prov.) has improved to 1.36% from 0.99% in FY21. With improvement in profitability, the cash accrual has also improved from Rs.31.39 crore in FY21 to Rs.46.90 crore in FY22 (Prov.).

- **Comfortable capital structure with adequate debt protection metrics**

The group has a comfortable capital structure on the back of its satisfactory adjusted net worth (ATNW) base of Rs.268.81 crore as on March 31, 2022 (including subordinated USL of Rs.116.40 crore). The overall gearing ratio of the group though moderated continues to remain comfortable at 0.99x as on Mar.31, 2022 vis-a-vis 0.77x as on March 31, 2021. The moderation in gearing is on account of availment of fresh term loans and enhancement in working capital borrowings during the period. The total debt stood at Rs.266.12 crore as on March 31, 2022 as against Rs.176.33 crore as on March 31, 2021. Total indebtedness of the group marked by TOL/ANW also continues to remain comfortable at 1.53x as on March 31, 2022. Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable at 2.63x and 5.67years in FY22 (provisional) as compared to interest coverage at 2.24x in FY21 and Total debt to GCA at 5.62 years as on March 31,2022.

Key Rating Weaknesses

- **Exposure to intense competition**

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, the group also faces competition from the organized sector players.

- **Susceptibility of margins to fluctuations in raw material prices**

The prices of the key raw material i.e, Iron ore, have shown a volatile trend over the years and are determined by market forces. Raw material cost is a major contributor to its total operating cost, thereby making profitability sensitive to raw material prices. Further, the major raw material price of the group is prone to witnesses frequent price fluctuations. Thus, any adverse change in the prices of the raw material may affect the profitability margins of the group.

- **Working capital intensive nature of operation**

The operation of the group is working capital intensive in nature. The group is required to maintain adequate inventory of raw material for smooth production process as well as maintain inventory of finished goods to meet demand of its customers which resulted in average inventory period of 40 days for FY22 Prov. as compared to 43 days in FY21. Furthermore, the group offers a credit period of around 30 to 40 to its customers owing to its presence in highly competitive industry resulting in average collection period of 26 days in FY22. However, it receives a credit period of 25-30 days from its suppliers. The operating cycle of the group stood at 47 days in FY22 (provisional) as compared to 44 days in FY21.

- **Exposure to cyclicality in the steel industry**

The steel industry is sensitive to the shifting business cycles including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to the demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Further, the value addition in the steel products like bright bars, Ingots and TMT etc. is also low resulting into low product differentiation in the market. Furthermore, the producers of such steel products are essentially price-takers in the market, which directly exposes their cash flows and profitability to volatility in the input prices.

Analytical Approach: Consolidated.

For arriving at the rating, Infomerics has combined the financial risk profiles Niros Ispat

Private Limited, Hindupur Steel & Alloys Private Limited and MR Enterprises as these entities are run under a common management, have strong operational & financial linkages and cash flow fungibility. Further, all the three entities are in steel manufacturing segment. The lists of Companies considered for consolidation are given in Annexure 3.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The group had generated healthy cash accrual of around Rs.46.90 Cr in FY22 (Prov.) as against repayment obligation of around Rs.15.66 crore. Further, the group is also expected to generate steady cash accrual in the range of Rs. 55.60 crore to Rs. 83.59 crore against its repayment obligation in the range of Rs.17.99 crore to Rs.21.50 crore in FY23-FY25. Moreover, the group has adequate gearing headroom on the back of its comfortable capital structure.

About the Company and the group

Incorporated in 2001, Niros Ispat Pvt Ltd is a Bhilai-based company promoted by Agrawal family of Chhattisgarh. The company, which is an integrated unit is engaged in manufacturing of Sponge Iron, MS Billets and MS Structural. The operations of the company are managed by Mr. Anil Kumar Agrawal and Mr. Siddheshwar Prasad Agrawal. The finished goods are sold under the brand BLUE LINES, which has a strong brand recall value and is widely accepted in the market. Niros also installed a WHRB power plant of 8MW in the year 2013, to enable the company to save on power cost which is a critical and significant part in the cost structure for production of billet and is enables the company to save cost and increase profitability.

Incorporated in 2009, Hindupur Steel & Alloys Pvt Ltd is an Anantapur (Andhra Pradesh) based company managed by Mr. Ganesh Kumar Agrawal and Mr. Nitin Agrawal. The company is engaged in manufacturing of Billets and TMT bars. HSAPL have been a leading player in manufacturing of TMT Bars of “KAMDHENU” Brand for nearly 10 years.

MR Enterprises was incorporated by the Agarwal family in the year 2019 to take over the assets of Maheshwari steels in a slump sale. The firm started its commercial production in November '19.

Financials: Consolidated

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	1236.05	1853.88
EBITDA	57.30	85.47
PAT	12.22	25.29
Total Debt	176.33	266.12
Tangible Net worth including quasi equity	229.74	268.81
EBITDA Margin (%)	4.64	4.61
PAT Margin (%)	0.99	1.36
Overall Gearing Ratio (x)	0.77	0.99
Interest Coverage Ratio (x)	2.24	2.63

**Classification as per Infomerics' standards.*

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	591.65	838.36
EBITDA	21.13	34.72
PAT	3.81	6.11
Total Debt	83.16	123.97
Tangible Net worth including quasi equity	99.09	105.21
EBITDA Margin (%)	3.57	4.14
PAT Margin (%)	0.64	0.73
Overall Gearing Ratio (x)	0.84	1.18
Interest Coverage Ratio (x)	2.38	2.35

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (August 24, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	
1.	Cash Credit	LT	100.00	IVR BBB+; Positive	IVR BBB+; Stable	-	-	-
2	Term Loan/GECL	LT	23.18	IVR BBB+; Positive	IVR BBB+; Stable	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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
Cash Credit	-	-	-	100.00	IVR BBB+; Positive
Term Loan/GECL	-	-	March 2026	23.18	IVR BBB+; Positive

Annexure 2: Facility wise lender details: As per attached annexure
https://www.infomerics.com/admin/prfiles/Bank_Lender_HSAPL_12_08_2022.pdf

Annexure 3: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Niros Ispat Pvt Ltd	Full consolidation
Hindupur Steel and Alloys Pvt Ltd	Full consolidation
M R Enterprises	Full consolidation

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.