Press Release

Maharaja Ispat Private Limited

January 09, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank facilities	16.50	IVR BB+ /Positive (IVR Double B plus with Positive Outlook)	Re-affirmed at IVR BB+ (IVR Double B Plus) [Outlook revised to Positive from Stable]
Total	**16.50**		

Details of Facilities are in Annexure 1

Detailed Rationale

The re-affirmation of the rating assigned to the bank facilities of Maharaja Ispat Private Limited (MIPL) continues to derive comfort from its experienced promoters, stabilisation of operation and strategic location of plant with backward & forward integration initiatives. Infomerics also notes steady improvement in its scale of operations in FY19 as compare to FY18 coupled with improvement in its financial risk profile. However, the rating strengths are constrained due to its short track record in manufacturing, volatility in the prices of raw materials & finished goods and high competition. The outlook has been revised from stable to positive on the back of expected improvement in its scale of operations coupled with improvement in cash accruals ensuring a strong business risk profile.

Key Rating Sensitivities

Upward Rating Factor

- Steady growth in scale of operations with improvement in profitability on a sustained basis

Downward Rating Factor

- Moderation in scale of operation and profitability on a sustained basis
- Deterioration in the financial risk profile

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters

MIPL was promoted by Mr. Navneet Kumar Agarwal in the year 2006. Mr. Agarwal has more than 15 years of experience in the iron and steel industry. Mr. Agarwal also heads the partnership firm Maharaja engaged in manufacturing coke since long. Currently, Mr. Agarwal (Director) is at the helm of affairs of the company.

Stabilisation of manufacturing operation

The company has started its manufacturing facility in January, 2018. Since commencement of operations, the company has improved its capacity utilization from 39% in FY19 to 84% during H1FY20 for the lancing tubes division, whereas for LPG division capacity utilization improved from 59% in FY19 to 79% during H1FY20. The improvement in capacity utilisation led to growth in revenue to Rs.76.01 crore in FY19 as compared to Rs.31.94 crore in FY18. Further, during H1FY20, the company has achieved a total operating income of Rs.49.73 crore.

Strategic location of plant with backward & forward integration initiatives

The manufacturing facility of MIPL is located in Durgapur, West Bengal, within a close vicinity from the top three bottling plants in the eastern region, which will help them save cost in the long run. Further, the plant is very well connected with other nearby places through roadways. Further, MIPL has also received the license for repairing of gas cylinders which has a potential market which would benefit the company in long run as margins are higher in the repairing segment. Currently, MIPL has annual order value of Rs 9.95 crore for re-conditioning of LPG cylinder.

Improving profitability coupled with improvement in financial risk profile

The company was earlier into trading of coke where the margin was low. The company has now ventured into manufacturing of cylinders and lancing tubes resulting in better profitability margins. The operating margins of MIPL improved to 3.50 % in FY19 from 2.49% in FY17. The growth in EBIDTA margin was due to the increase in cylinder segment where profitability is better than that of tubes. The Company had a comfortable long term debt-equity ratio and overall gearing of 0.32x and 0.41x in FY19 as compared to 1.96x and 1.96x in FY18 respectively. The improvement in gearing is due to infusion of equity of Rs.15.44 crore by the promoters and other group companies. Debt protection parameters marked by interest coverage ratio and DSCR remained healthy over the past few years. Further total debt to GCA reduced to 4.20x in FY19 from 10.30x in FY18.

Key Rating Weaknesses

Short track record in manufacturing& low scale of operation

MIPL has recently ventured into manufacturing of LPG cylinder and Lancing tubes, earlier for 12 years they were a trading in coke. They have been operating the manufacturing facility for the past one and half years only. There is no past record for the similar operation. Also, currently the scale of operations is low.

Volatility in the prices of raw materials and finished goods

The price of steel has seen a lot of volatility over the last three years. The price of HR coil, which is one of the main raw materials required for MIPL, fell by ~14% from April 19 to September 19. Similarly, the price realisations for LPG Cylinders are linked to the input prices, where there could be squeezing of margin when the input cost increase is not fully absorbed in the selling prices.

High competition

MIPL mainly operates in the State of West Bengal and is likely to face stiff competition from not only established players, but also from the unorganised sector due to low level of product differentiation. Also, there is risk that demand might fall in the urban markets with introduction of pipeline gas. However, lancing tubes has a high demand in the eastern region as it is required in all the furnace based plants and there are few competitors for lancing tubes in the Burdwan district of West Bengal.

Analytical Approach: Standalone

Applicable Criteria

Liquidity: Adequate

The liquidity position of the MIPL appears to be adequate marked by its comfortable current ratio at 1.61x as on March 31, 2019. Further, the liquidity is further strengthened by its low utilization of working capital limits providing liquidity cushion to the company.

About the Company

Incorporated in April 25, 2006, Durgapur based Maharaja Ispat Pvt Ltd (MIPL) was promoted by one Mr. Navneet Kumar Agarwal. MIPL, since inception, was engaged in trading of coke and coal. However, they began setting up a manufacturing unit for production of LPG cylinders and lancing tubes in the year 2017. The facility's commercial operations date (COD) as planned was in January, 2018. The manufacturing facility of the company is located at Durgapur with an installed capacity of 12000 MTPA for Lancing Tubes and 4.50 Lacs LPG Cylinders per year. MIPL has already commenced operations and have started manufacturing Lancing Tubes and are getting a good response which has made them run it at its full capacity.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	31.94	76.01
EBITDA	0.80	2.66
PAT	0.52	0.99
Total Debt	6.09	7.93
Tangible Net worth	3.11	19.54
EBITDA Margin (%)	2.49	3.50
PAT Margin (%)	1.62	1.30
Overall Gearing Ratio (x)	1.96	0.41

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits-Term Loan	Long Term	6.50	IVR BB+ / Positive Outlook	IVR BB+ / Stable Outlook (Sep 6,2018)	-	-
2	Long Term Fund Based Limits-Cash Credit	Long Term	2.50	IVR BB+ / Positive Outlook	IVR BB+ / Stable Outlook (Sep 6,2018)		
3	Long Term Fund Based Limits – Cash Credit (Proposed)	Long Term	7.50	IVR BB+ / Positive Outlook	IVR BB+ / Stable Outlook (Sep 6,2018)		

* Based on an unconditional and irrevocable guarantee of Simplex Infrastructures Limited and other sponsors on joint and several basis.

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.

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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
Term Loan	Sept-2017	12.30%	Mar-2024	6.50	IVR BB+ /Positive Outlook
Cash Credit	-	-	-	2.50	IVR BB+ /Positive Outlook
Cash Credit (Proposed)	-	-	-	7.50	IVR BB+ /Positive Outlook