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Hindupur Steel & Alloys Private Limited

July 31, 2024

Ratings

Security Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	127.07 (enhanced from 120.05)	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed	Simple
Total	127.07 (Rs. One hundred twenty-seven crore and seven lakh only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of Hindupur Steel & Alloys Private Limited (HSAPL) considers the close operational and financial linkages between HSAPL, Niro's Ispat Pvt Ltd (NIPL) and MR Enterprises (MRE) (commonly referred as Niro's group). Infomerics Ratings has reaffirmed its rating assigned to the bank facilities of HSAPL considering established track record and longstanding experience of the promoters, integrated steel plant and coal linkage with South-Eastern Coalfield Ltd (SECL). Further, the ratings continue to derive comfort from the group's locational advantage and stable business performance of the group coupled with comfortable capital structure with adequate debt protection metrics. However, these rating strengths continues to remain partially offset by Niro's group's exposure to intense competition, susceptibility of margins to fluctuations in raw material prices, working capital intensive nature of its operation and exposure to cyclical nature in the steel industry.

The stable outlook reflects expected stable performance of the group in the near to medium term on the back of its experienced promoters and healthy demand of steel products.

Key Rating Sensitivities:

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity



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- 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.
- Withdrawal of subordinated unsecured loans and/or any unplanned capex leading to 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 group had established healthy relationship with its customers and suppliers. NIPL 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. HSAPL 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 for 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.

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 group to withstand the cyclical nature of the steel industry as well as enable the group to achieve higher profitability margins. The group has an 8MW WHRB captive power plant which helps in substantial savings in the power cost and thus gives a competitive edge to the group. Moreover, the integrated nature of operations supports operating efficiencies and



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aids in weathering the cyclical in the steel industry. Moreover, the group has linkages with South-Eastern Coalfields Ltd (SECL) for the supply of Coal and with NMDC Ltd 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 Nirospat 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 HSAPL 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.

Stable business performance of the group

Despite increase in sales volume, the total operating income of the group witnessed a slight moderation in FY24 (prov.) (FY refers to the period from April 01 to March 31) to Rs.2107.17 crore from Rs.2110.24 crore in FY23 mainly due to decline in average sales realisation during the year. However, the EBITDA margin of the group improved from 4.19% in FY23 to 4.23% in FY24 (Prov.) mainly due to decline in raw materials consumption price coupled with higher absorption of fixed overhead underpinned by increase in capacity utilisation in all the plants during the year. However, despite improvement in EBITDA margin, the PAT margin moderated to 0.88% in FY24 (Prov.) from 1.03% in FY23 due to increase in finance charges and depreciation owing to recently concluded capex in MRE.

HSAPL on a standalone basis reported a total operating income of Rs.941.88 crore with EBITDA margin of 4.25% and PAT margin of 0.85% in FY24 (prov.)

Satisfactory capital structure with adequate debt protection metrics

The group has a satisfactory capital structure on the back of its satisfactory adjusted net worth (ATNW) base of Rs.250.90 crore as on March 31, 2024 (including subordinated USL of Rs.68.72 crore). Despite increase in total debt, the overall gearing ratio of the group continues to remain satisfactory at 1.38x as on March 31, 2024 (Prov.) vis-a-vis 1.37x as on March 31, 2023. Total indebtedness of the group marked by TOL/ATNW also continues to remain satisfactory at 1.94x as on March 31, 2024 (Prov.). Debt protection parameters marked by



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interest coverage ratio moderated to 2.12x in FY24 (provisional) as compared to 2.42x in FY23 due to increase in finance cost. Further, Total debt to GCA and Total debt to EBITDA continues to stand moderate at 7.90 years and 3.87x respectively as on March 31, 2024 (Prov.).

HSAPL on a standalone basis had a satisfactory capital structure with overall gearing of 1.24x as on March 31, 2024 (Prov.) and moderate debt protection metrics with interest coverage of 2.08x in FY24 (Prov.).

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 witness 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 43 days for FY24 Prov. as compared to 45 days in FY23. Furthermore, the group offers a credit period of around 20 to 30 to its customers owing to its presence in highly competitive industry resulting in average collection period of 24 days in FY24. The operating cycle of the group stood at 49 days in FY24 (provisional).

Exposure to cyclicity 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



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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: Combined

For arriving at the rating, Infomerics Ratings has combined the financial risk profiles Niro's 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. All the three companies combined referred as Niro's group hereafter. The lists of companies considered for combined analysis are given in **Annexure 4**.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

[Consolidation of Companies](#)

Liquidity – Adequate

The liquidity position of the group remains adequate in the recent past. The group had generated healthy cash accrual of around ~Rs.44 Cr in FY24 (Prov.) as against repayment obligation of ~Rs.18.50 crore. Further, the group is also expected to generate steady cash accrual in the range of Rs. 55.20 crore to Rs. 67.49 crore against its repayment obligation in the range of Rs.20.94 crore to Rs.27.09 crore during FY25-FY27. Moreover, the group and HSAPL on a standalone basis has adequate gearing headroom on the back of satisfactory capital structure.

About the Company

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 Billets and TMT bars. HSAPL have been a leading player in manufacturing of TMT Bars of “KAMDHENU” Brand for nearly 10 years. This company is also owned by the Agarwal family has the same management; however this



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being located in the border area of Andra Pradesh and Karnataka gives geographical diversification to the Group since the other two units of the Group are located in Chhattisgarh.

About the group

Niros group belongs to the Chhattisgarh based one Agarwal Family who have been engaged in Iron & Steel Industry for more than two decades. The group consists of three companies, namely Niros Ispat Pvt Ltd, Hindupur Steel & Alloys Pvt Ltd. & MR Enterprises. The group is engaged in Manufacturing of Sponge Iron, MS Billet/Ingot & Rolled Products like TMT, Strips, Pipes etc. The group also has a 8MW captive power plant which helps in substantial savings in Electricity cost. In addition, there is linkage of coal in the group with SECL which provides raw material security and availability of raw material at lower cost.

Financials (Standalone):

For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	969.04	941.88
EBITDA	36.65	40.05
PAT	7.90	8.01
Total Debt	120.55	128.05
Tangible Net Worth	45.58	53.29
Adjusted Tangible Net Worth	95.70	103.41
EBITDA Margin (%)	3.78	4.25
PAT Margin (%)	0.81	0.85
Overall Gearing Ratio (x)	1.26	1.24
Interest Coverage (x)	2.35	2.08

* 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 Security/ Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					July 11, 2023	August 12, 2022	August 24, 2021
1.	Term Loans/ GECL	Long Term	23.07	IVR A-; Stable	IVR A-; Stable	IVR BBB+; Positive	IVR BBB+; Stable



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		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					July 11, 2023	August 12, 2022	August 24, 2021
2.	Cash Credit	Long Term	104.00	IVR A-; Stable	IVR A-; Stable	IVR BBB+; Positive	IVR BBB+; Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength 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: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	104.00	IVR A-; Stable
Term Loan/GECL	-	-	-	February 2030	23.07	IVR A-; Stable

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Hindupur-Steel-31july24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis:

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

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.