# Press Release

## N.N. Ispat Private Limited

**January 13, 2021**

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating | Ratings Action |
|---|---|---|---|---|
| 1 | Long Term Bank Facilities | 52.45 | IVR BBB/Stable (IVR Triple B with Stable Outlook) | Assigned |
| 2 | Short Term Bank Facilities | 40.00 | IVR A3+ (IVR A Three Plus) | Assigned |
| | **Total** | **92.45 (Rupee Ninety two crore and forty five lakh )** | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The ratings assigned to the above bank facilities of N.N.Ispat Private Limited (NNIPL), a part of AIC group derives strength from the extensive experience of the Group's promoters in iron and steel industry, semi-integrated nature of operations, strategic location of plant and steady increase in scale of operations of the AIC group with improvement in operating margin. The ratings also positively factor in AIC group's satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics. However, these rating strengths remain constrained due to project execution and stabilisation risks associated with ongoing capex and susceptibility of its profitability to volatility in raw material and finished goods prices. The ratings also consider high competition and cyclicality in 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
- Improvement in the capital structure with improvement in TOL/TNW and improvement in debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

**Downward Factors:**

- Decline in operating income and/or profitability impacting the debt coverage indicators,
- Higher than-envisaged debt-funded capex and/or delays in implementation and stabilisation of projects
- Withdrawal of subordinated unsecured loans amounting to Rs.75 crore leading to deterioration in the capital structure and debt protection metrics
- Elongation in the operating cycle impacting the liquidity and higher 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 and resourceful promoters**
  The promoters of the AIC group, the Adukia family of West Bengal have more than two decades of experience in the iron and steel industry. The overall affairs of the AIC group are being managed by Mr. Dinesh Adukia along with his brothers. The promoters are resourceful and have also supported the group companies by infusing subordinated unsecured loans as and when required to support the business operations.
- **Semi-integrated nature of operations of the group and strategic location of plants**
  The manufacturing facilities of the AIC group are located in purulia and burdwan districts of West Bengal which is in close proximity to various steel plants, nearby coal fields and various producers/dealers of its main raw materials. This results in easy availability of quality raw materials and savings in transportation costs. Moreover, RISPPL is a semi- integrated steel player engaged in manufacturing of sponge iron, silico manganese, billets and thermo mechanically treated (TMT) bars with a captive power plant. However, AIIPL and NNIPL are engaged in manufacturing of MS billets, TMT bars and other rolled steel products and source a portion of their raw materials requirement such as Sponge Iron, Silico manganese from RISPPL. Currently, the group is also in the process of setting up sponge iron and power plant in AIIPL to further backward integrate its operations. Accordingly, vertical integration in

operations coupled with proximity to the source of raw materials & end user market provides a competitive edge to the AIC Group.

- **Steady growth in scale of operations with improvement in EBITDA margin**
  Total operating income of AIC group has increased at a CAGR of ~30% over FY18-FY20 driven by expansion of manufacturing facility for billet, silico manganese,TMT and other rolled steel products. Besides, the group has been able to scale up operations due to stabilisation and increase in capacity utilisation across all its product segment. The operating profitability witnessed an improvement with EBITDA margin at 5.94% during FY20 as compared to 5.56% in FY18 supported by backward integration measures and economies of scale benefits. During H1FY21, the group achieved revenue of Rs. 410 crore.
- **Satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics**
  The AIC group on a combined basis, has satisfactory financial risk profile with healthy net worth base of ~Rs195 crore (treating subordinated unsecured loans of Rs.75 crore as quasi equity based on undertaking received from the group and as stipulated in the bank sanction letters) as on March 31, 2020 (Prov.). The overall gearing of AIC group remained satisfactory at 0.97x as on March 31, 2020 despite marginal moderation as against 0.56x as on March 31, 2018. Moderation in overall gearing was mainly due to debt funded capex over FY18-FY20 towards expansion of manufacturing facility for silico manganese, billets, TMT, captive power plant and other rolled steel products. The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood comfortable at 5.42x and 4.72 years respectively in FY20 (provisional). Total indebtedness of the group as reflected by TOL/ATNW stood comfortable at 1.46x as on March 31, 2020 (Prov.). Infomerics expects, the capital structure of the AIC group though expected to be moderated in the near term due to availment of debt to fund the ongoing capex will continue to remain satisfactory.

**Key Rating Weakness:**

- **Vulnerable to project execution and stabilisation risks associated with ongoing capex**
  The group is undertaking capex towards expansion and capacity enhancement. It is setting up sponge iron plant (105000 MTPA), Power plant (12 MW), MS Pipe/strips (49500 MTPA) and billets (36000 MT) in AIIPL with a total project cost of Rs. 80 crore funded through term

loan of Rs. 55 crore (Rs. 40 crore already tied-up) and rest through promoters fund in the form of unsecured loan and internal accruals. The group has already successfully commissioned and started the commercial production of MS Strips/Pipes in January 2020 and Billets in October 2020. Total capex incurred till October 14, 2020 is Rs. 52.86 crore, funded by term loan of Rs. 25.95 crore and balance through internal accruals and unsecured loan. Sponge Iron and Power plant project is expected to be completed by April 2022. The group is also undertaking capex in NNIPL for enhancement in production capacity through upgradation of furnace and rolling mill with total project cost of Rs. 9.00 crore funded through term loan of Rs.6 crore (already tied-up) and rest through promoters fund in the form of unsecured loan and internal accruals. The project is expected to be completed by April 2021.

- **Volatility in the prices of raw materials and finished goods**
  Major raw-materials required for the group are iron-ore and coal for manufacturing of sponge iron. Raw-material accounted for ~75-80% of total cost of production in the last three fiscals. The group lacks backward integration for its basic raw-materials (iron ore and coal) and has to procure the maximum requirement from open market. Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the group is susceptible to fluctuation in raw-material prices. On the other hand, the finished foods are also volatile and dependent upon economic cycles and global demand supply scenarios.

- **High competition and cyclicality in the steel industry**
  The group faces stiff competition from not only established players, but also from the unorganised sector. Besides, the steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with expected robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector. However, any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact the AIC group adversely.

**Analytical Approach:** Consolidated

For arriving at the ratings, Infomerics has considered the combined financials of three companies constituting the AIC Group considering the same management and strong operational and financial linkages. The list of companies is given in **Annexure 2.**

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

**Liquidity Position: Adequate**

The liquidity position of the AIC group is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals of Rs.41-63 crore as against its repayment obligations of Rs. 19-24 crore during FY21-23. Moreover, the average working capital limit utilisation was ~80% during the past twelve months ended September 2020 indicating moderate liquidity buffer.

**About the Company**

NNIPL was incorporated in 2004. In November 2008, the company was taken over by Adukia group of West bengal. The company is presently engaged in manufacturing of MS Billets and TMT bars with installed capacity of 200000 MTPA and 120000 MTPA respectively. Its manufacturing facility is located at Burdwan district of West Bengal.

**About the Group**

The promoters of AIC Group have been in the iron and steel business for more than 20 years. The AIC group is engaged in manufacturing of steel products through various companies under its folds. The companies operating under AIC Group are AIC Iron Industries Private Ltd, NN Ispat Private Limited and RAIC Integrated Sponge & Power Pvt Ltd, which are all controlled by the similar management and have common control.

**Financials (Combined)** **(Rs. crore)**

| For the year ended* / As On | 31-03-2019 | 31-03-2020 |
|---|---|---|
| | Combined | Combined |
| Total Operating Income | 762.11 | 932.36 |
| EBITDA | 43.67 | 55.42 |
| PAT | 16.77 | 20.95 |
| Total Debt | 126.94 | 188.10 |
| Adjusted Tangible Net worth | 166.13 | 194.02 |
| EBITDA Margin (%) | 5.73 | 5.94 |
| PAT Margin (%) | 2.20 | 2.24 |
| Overall Gearing Ratio (x) | 0.76 | 0.97 |

**Classification as per Infomerics' standards.*

**Financials (Standalone)** **(Rs. crore)**

| For the year ended* / As On | 31-03-2019 | 31-03-2020 |
|---|---|---|
| | Audited | Provisional |
| Total Operating Income | 539.57 | 513.87 |
| EBITDA | 17.60 | 21.70 |
| PAT | 5.65 | 8.67 |
| Total Debt | 55.20 | 45.68 |
| Adjusted Tangible Net worth | 51.19 | 59.86 |
| EBITDA Margin (%) | 3.26 | 4.22 |
| PAT Margin (%) | 1.05 | 1.68 |
| Overall Gearing Ratio (x) | 1.08 | 0.76 |

**Classification as per Infomerics' standards.*

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

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No | Name of Instrument/Facilitie | Current Rating (Year 2020-21) | Rating History for the past 3 years |
|---|---|---|---|

| . | s | Type | Amount (Rs. Crore) | Ratings | 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. | Term Loan | Long Term | 7.45 | IVR BBB/ Stable | - | - | - |
| 2. | Cash Credit | Long Term | 45.00 | IVR BBB/ Stable | - | - | - |
| 3. | Non Fund Based (includes proposed limit of Rs. 11.00 crore) | Short Term | 40.00 | IVR A3+ | - | - | - |

**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:**

| | |
|---|---|
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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. 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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we 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: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating / Outlook |
|---|---|---|---|---|---|
| Term Loan | - | - | June 2025 | 7.45 | IVR BBB/ Stable |
| Cash Credit | - | - | - | 45.00 | IVR BBB/ Stable |
| Non Fund Based (includes proposed limit of Rs. 11.00 crore) | - | - | - | 40.00 | IVR A3+ |
| **Total** | | | | **92.45** | |

**Annexure 2: List of companies considered for consolidated analysis**

| Name of the Company | Consolidation Approach |
|---|---|
| AIC Iron Industries Private Ltd (AIIPL) | Full consolidation |
| NN Ispat Private Limited (NNIPL) | Full consolidation |
| RAIC Integrated Sponge & Power Pvt Ltd (RISPPL) | Full consolidation |

**Annexure 3: Facility wise lender details (Hyperlink to be added)**

**https://www.infomerics.com/admin/prfiles/Lender-N-N-Ispa-Private-Limited-13-jan-21-.pdf**