Press Release

Hindupur Steel & Alloys Pvt Ltd

July 11, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	120.05 (Reduced from 123.18)	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Ratings revised from IVR BBB+; Positive (IVR Triple B Plus with Positive Outlook)	Simple
Total	**120.05 (Rupees one hundred and twenty crore and five lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Hindupur Ateel & Alloys Private Limited (HSAPL) considers the close operational and financial linkages between Hindupur Steel & Alloys Private Limited (HSAPL), Niros Ispat Private Limited (NIPL) and MR Enterprises (MRE) (commonly referred as Niros group). The revision in the ratings assigned to the bank facilities of HSAPL considers improvement in total operating income of the group and comfortable capital structure backed by infusion of unsecured loan by the promoters coupled with Niros group's adequate debt protection metrics. 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 continues to remain partially offset by Niros 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 cyclicality in the steel industry.

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

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 weakening 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 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. 100.43 Crore as on 31st March 2023.

- **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.

- **Improvement in total operating income**

The group's total operating income witnessed a healthy y-o-y growth of ~18% in FY23(Prov.) to Rs. 2106.40 crore from Rs.1782.00 crore in FY22 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 moderated from 4.76% in FY22 to 4.14% in FY23 (Prov.) due to higher finished good closing stock during the year. However, despite moderation in EBITDA margin, the PAT margin has improved to 1.11% in FY23 (Prov.) from 0.77% in FY22. With improvement in profitability, the cash accrual has also improved from Rs.40.75 crore in FY22 to Rs.50.32 crore in FY23 (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.265.91 crore as on March 31, 2023 (including subordinated USL of Rs.100.43 crore). The overall gearing ratio of the group improved and continues to remain comfortable at 1.07x as on March 31, 2023 vis-a-vis 1.18x as on March 31, 2022. The improvement in gearing is on account of accretion of profit to reserves and scheduled repayment of term loans. Total indebtedness of the group marked by TOL/ATNW also continues to remain comfortable at 1.63x as on March 31, 2023. Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable at 2.48x in FY23 (provisional) and 5.64 years as on March 31, 2023 compared to interest coverage at 2.61x in FY22 and Total debt to GCA at 6.90 years as on March 31, 2022.

B. 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 43 days for FY23 Prov. as compared to 41 days in FY22. 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 FY23. The operating cycle of the group stood at 47 days in FY23 (provisional) as compared to 45 days in FY22.

- **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: Combined

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. The lists of companies considered for combined analysis are given in **Annexure 2.**

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The liquidity of the Niros group and HSAPL is expected to remain adequate in the near term. The group had generated healthy cash accrual of around Rs.50.32 Cr in FY23 (Prov.) as against repayment obligation of around Rs.18.51 crore. Further, the group is also expected to generate steady cash accrual in the range of Rs. 59.64 crore to Rs. 80.59 crore against its repayment obligation in the range of Rs.17.48 crore to Rs.19.56 crore during FY24-FY26. 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 unit, manufacturing of Sponge Iron, MS Billets and MS Structurals. 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. 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 : Combined

(Rs. crore)

For the year ended / As on	31-03-2022	31-03-2023
	Combined	Combined
Total Operating Income	1782.00	2106.40
EBITDA	84.82	87.23
PAT	14.37	24.28
Total Debt	281.00	283.80
Tangible Net worth (including quasi equity)	239.01	265.91
EBITDA Margin (%)	4.76	4.14
PAT Margin (%)	0.81	1.15
Overall Gearing Ratio (x)	1.18	1.07

**Classification as per Infomerics’ standards*

Financials : Standalone

(Rs. crore)

For the year ended / As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	838.33	969.04
EBITDA	33.80	35.42
PAT	5.99	8.45
Total Debt	136.66	117.38
Tangible Net worth (including quasi equity)	86.61	99.61
EBITDA Margin (%)	4.03	3.65
PAT Margin (%)	0.71	0.87
Overall Gearing Ratio (x)	1.58	1.18

*Classification as per Infomerics’ standards

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (August 12, 2022)	Date(s) & Rating(s) assigned in 2021-22 (August 24, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	LT	100.00	IVR A-; Stable	IVR BBB+; Positive	IVR BBB+; Stable	-
2	Term Loan/ECLGS	LT	20.05	IVR A-; Stable	IVR BBB+; Positive	IVR BBB+; Stable	-

Name and Contact Details of the Rating Analyst:

Name: Nidhi Sukhani	Name: Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: nsukhani@infomerics.com	Email: apodder@infomerics.com

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.

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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 A-; Stable
Term Loan/ECLGS	-	-	June 2026	20.05	IVR A-; Stable

Annexure 2: List of companies considered for 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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-HSAPL-jul23.pdf

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.