Press Release

M/s. Ispat India

March 15, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity indicator
1.	Long Term Bank Facilities – Cash Credit	24.00	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Revised from IVR BBB+; Stable (IVR Triple B with Stable Outlook)	Simple
2.	Long Term Bank Facilities – Term Loan	2.33	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Revised from IVR BBB+; Stable (IVR Triple B with Stable Outlook)	Simple
	Total	**26.33 (Rupees twenty six crore and thirty three lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of M/s Ispat India continues to derive comfort from the parentage of the Agrasen group and strong support from group synergy. The revision in ratings assigned to the bank facilities of M/s Ispat India considers steady improvement in financial performance of Agrasen group in FY21 and in 9MFY22 with healthy liquidity and its comfortable capital structure with adequate debt protection metrics. Further, the ratings continue to derive comfort from locational advantage of the plant with group's semi-integrated operations, agreement with Kamdhenu Limited (KL) along with established relationship of the Agrasen Group with KL. However, these rating strengths continues to remain constrained due to volatility in raw material prices, presence in highly competitive & fragmented industry and exposure to cyclicality in the steel industry.

Key Rating Sensitivities

Upward Factors

- Growth in scale of operation with continuance of agreement with KL and improvement in profitability with EBITDA margin over 7%
- Improvement in the capital structure and/or improvement in the debt protection metrics

- Efficient working capital management with improvement in its average cash credit utilisation to below 90% on a sustained basis

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.
- Deterioration in the capital structure with moderation in the overall gearing to more than 1.50x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Parentage of the Agrasen group and strong support from group synergy**

The Agrasen group is founded by one Agrawal family of Raipur, Chhattisgarh. The group has vast experience in the steel and steel products manufacturing and trading segment through various companies under its fold. The Agrawal family started their business operations with trading of steel products and gradually ventured in manufacturing operations in 2002 and consequently has more than one and half decades of experience in manufacturing of steel products. Currently, the Agrasen group has two business verticals – Trading and Manufacturing. Under manufacturing vertical, the group is engaged in manufacturing of steel wires, Ms. Ingot, Billets and steel rolled products. Under trading vertical the group is engaged in trading of various steel products. Further, the trading companies of the Agrasen Group, are empaneled vendors of large companies and supplies varied grades of iron and steel products. All the companies of the group gained from strong operational synergies among the group companies and enjoys better competitive power.

- **Locational advantage**

The manufacturing facility of Ispat India and other group entities namely, Agrawal Channel Mills Private Limited (ACML), Devi Iron & Power Private Limited (DIPL) , Hindustan Coils Limited (HCL) , Mahamaya Spong Iron Private Limited (MSIPL) and M/s. Om Sponge (OS) is located in Raipur, Chhattisgarh which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron and iron scrap, the main raw materials for manufacturing of its products. Accordingly, availability and sourcing of raw materials is not an issue for the companies.

- **Semi-integrated nature of operation of the group**

The operations of the Agrasen group is semi-integrated with manufacturing facilities of both intermediate products like sponge iron, billets and end products like TMT bars, wires, structural, coils, tubes. Further, around 70-75% of sponge iron produced by DIPPL is procured by ACML, HCL and II. Moreover, under DIPPL, the group has access to an iron ore mine with around 8-10 crore tonnes reserve spread over an area of about 400 Hectare. However, the mining operation is expected to start soon and pending for regulatory clearances.

- **Agreement with Kamdhenu Limited (KL) along with established relationship of the Agrasen Group with KL**

The Agrasen group has an established relationship with KL, as the group is also manufacturing MS Angle, channels in Agrawal Channel Mills Pvt. Ltd and steel wires in Hindusthan Coils Ltd under the brand "Kamdhenu" under respective franchise agreements with KL. Besides, under M/s Ispat India the group has entered into a licensee agreement (last renewed on April 1,2019) with KL to market its products under the brand name of "Kamdhenu". As per the agreement, the firm needs to pay royalty fees amounting to Rs.200 per MT plus applicable taxes (subject to a minimum royalty of Rs.2,00,000 per month) for the use of "Kamdhenu" brand. The use of the established 'Kamdhenu' brand helps the firm to effectively market its products. In view of its established relationship with KL, the risk of non-renewal of contract is less.

- **Established marketing arrangements**

KL had 75 units under its brand with a network consisting of more than 11,500 dealers and distributors as on March 31, 2020. Further, the Agrasen group has its own established marketing arrangements with various steel products dealers on the back of its more than a decade long operation in the steel trading/manufacturing segment. The use of in-place marketing arrangements of KL and the Agrasen group provide business advantage to the firm and to the group as a whole.

- **Improvement in top line and profit margins of the Group in FY21 and in 9MFY22**

The combined TOI of the Agrasen Group improved to Rs.1234.89 crore from Rs.1112.50 crore in FY20 marked by an y-o-y growth of 11.02% driven by partial improvement in the steel industry in the second phase of FY21 after the end of nationwide lockdown leading to improvement in capacity utilization, increase in volume sales with marginal improvement in average sales realization of few steel products. With increase in the total operating income of the group, the absolute EBITDA also improved to Rs. 79.18 crore in FY21 as compared to

Rs.53.39 crore in FY20 resulting in increase in EBITDA margin from 4.80% in FY20 to 6.41% in FY21. Consequently, the combined PBT and PAT margin also increased from 1.53% and 1.34% respectively in FY20 to 3.00% and 2.10% respectively in FY21. Combined GCA also witnessed an improvement from Rs.34.47 crore in FY20 to Rs.46.42 crore in FY21. Driven by health rise in steel prices and steel demand the performance of the group has improved sharply in 9MFY22 the group has achieved a top line of ~Rs.1550 crore.

- **Comfortable capital structure and debt protection parameters of the Group**

The financial risk profile of the Agrasen group remained comfortable marked by its satisfactory capital structure and healthy debt protection parameters. The capital structure of the group remained comfortable with long term debt equity ratio and overall gearing of 0.65x and 1.15x as on March 31, 2021. With improved EBITDA, the debt protection metrics marked by interest coverage has improved and stood at 2.91x (2.70x in FY20). However, Total debt to GCA continued to remain moderate at 5.98 years in FY21 (5.87 years in FY20).

Key Rating Weaknesses

- **Susceptibility of profitability to volatile input prices**

  The cost of raw materials (i.e., sponge iron, pig iron and scrap) is the largest component of total cost of sales of steel products. Given that the prices of raw-materials are volatile in nature, the group's profitability is susceptible to fluctuation in raw-material prices. However, the Agrasen group had acquired controlling stake in DIPL in FY17 which has a sponge iron manufacturing capacity of 90000 MTPA. Further, the group has acquired MSIPL and OS having a sponge iron manufacturing capacity of 30000 MTPA each, during FY19 which will also expected to support its overall sponge iron requirement and boost its profitability going forward.

- **Highly competitive & fragmented nature of industry**

  The spectrum of the steel industry in which the group operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

- **Cyclicality in Steel Industry**

  The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on the firm's performance in view of its direct linkage to the fortunes of Steel industry. However, the outlook for the steel industry in the short to medium term appears to be good as the steel prices have hardened in the recent past, coupled with robust demand in the domestic market.

Analytical Approach: Consolidated Approach

For arriving at the ratings, INFOMERICS analytical team has combined the financials of M/s Ispat India, Agrawal Channel Mills Private Limited, Devi Iron & Power Private Limited, Hindustan Coils Limited, Mahamaya Sponge Iron Private Limited and M/s Om Sponge together referred as Agrasen Group as these companies have a common promoter family share common management team and have operational & financial linkages. (Details on companies are in Annexure 3)

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the Agrasen group is expected to remain adequate characterized by sufficient cushion in its cash accruals vis-à-vis repayment obligations. Further, the group has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The overall gearing of the group also remained comfortable at 1.15x as on March 31, 2021, indicating sufficient gearing headroom.

About the Company

M/s. Ispat India, a partnership firm was initially formed in August 2004 to manufacture M.S. Ingots in Raipur by Mr. Ashwini Gupta, Mr. Pritam Singh Kalash, Mr. Abhinandan Gupta and Mr. Vishal Sagar Behl. Later, In January 2016, M/s Ispat India was acquired by the promoters of the Agrasen group of Raipur, Chhattisgarh along with their relatives.

M/s. Ispat India, controlled by Agrasen group based on Raipur (Chhattisgarh) is engaged in manufacturing of MS Billet (Capacity: 120000MTPA), MS Strips (Capacity: 90000 MTPA) and

MS Tube (Capacity: 40000 MTPA).MS Ingots/Billets and strips are mainly used for captive consumption to produce rolled products (MS pipes/Tubes). The manufacturing facility of the firm is located in Raipur, Chhattisgarh. Presently, the firm is governed by the partnership deed dated April 1, 2019 with Mr. Yogesh Kumar Gupta, Mr. Narendra Gupta, Mr. Navneet Gupta, Mr. Sahil Singla, Mr. Kushan Garg, Mr. Nand Kishore Agrawal, Mrs. Gayatri Agrawal, Mrs. Suman Devi Agrawal, Mrs. Pratibha Agrawal, M/s. Jai AmbeyIndocem Pvt. Ltd, Mr. Vinod Kumar Singla and Mr. Tarun Kumar Gupta as partners.

About the Group

The Agrasen group is founded by the Agrawal family of Raipur, Chhattisgarh. The group has vast experience in the manufacturing and trading of steel products through various companies under its fold. The Agrawal family started their business operations with trading of steel products and gradually ventured in manufacturing operations in 2002. Currently, the Agrasen group has two business verticals – Trading and Manufacturing. Under manufacturing vertical, the group is engaged in manufacturing of steel wires, Ms. Ingot, Billets and steel rolled products. Under trading vertical the group is engaged in trading of various steel products.

Financials (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Combined	Combined
Total Operating Income	1112.50	1234.89
Total Income	1115.14	1237.99
EBITDA	53.39	79.18
PAT	14.91	25.98
Total Debt	202.17	277.34
Adjusted Net worth	225.77	252.11
EBITDA Margin (%)	4.80	6.41
PAT Margin (%)	1.34	2.10
Overall Gearing Ratio (x)	0.92	1.15

**As per Infomerics' Standard*

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	270.60	298.71
Total Income	271.24	299.51
EBITDA	10.70	15.05
PAT	5.22	5.01

For the year ended* / As On	31-03-2020	31-03-2021
Total Debt	42.08	42.74
Adjusted Net worth	28.24	30.45
EBITDA Margin (%)	3.96	5.04
PAT Margin (%)	1.93	1.67
Overall Gearing Ratio (x)	1.49	1.40

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

CARE Ratings has moved the rating of M/s Ispat India into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated September 13, 2021.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	24.00	IVR A- / Stable Outlook	IVR BBB+ / Stable Outlook (December 16, 2020)	IVR BBB+ / Stable Outlook (September 18, 2019)	IVR BBB- / Stable Outlook (March 27, 2018)
2.	Term Loan	Long Term	2.33	IVR A- / Stable Outlook	IVR BBB+ / Stable Outlook (December 16, 2020)	IVR BBB+ / Stable Outlook (September 19, 2019)	IVR BBB- / Stable Outlook (March 27, 2018)

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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.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	24.00	IVR A- / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	May, 2024	2.33	IVR A- / Stable Outlook

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Ispat-India-lenders-mar22.pdf

Annexure 3: List of companies considered for consolidated analysis:

Name of the Company /Entity	Consolidation Approach
M/s Ispat India (II)	Full consolidation
Hindustan Coils Limited (HCL)	Full consolidation
Devi Iron & Power Private Limited (DIPPL)	Full consolidation
Agrawal Channel Mills Private Limited (ACMPL)	Full consolidation
Mahamaya Sponge Iron Private Limited (MSIPL)	Full consolidation
M/s Om Sponge	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.