Press Release

Ispat India

January 08, 2024

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	165.75 (enhanced from 73.53)	IVR A-; Negative (IVR Single A Minus with Negative Outlook)	Reaffirmed with revision in outlook from stable to negative	Simple
Total	**165.75 (Rupees One hundred and sixty-five crore and seventy five lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

For arriving at the rating, Infomerics had combined the financials of M/s Ispat India, Devi Iron & Power Private Limited (DIPPL), Hindustan Coils Limited (HCL), Mahamaya Sponge Iron Private Limited (MSPL), M/s Om Sponge (OS) and M/s Topper Wire and Fastners (TWF) together referred as Agrasen Group (manufacturing) since these entities are formed by a common promoter family, share common management team and have operational & financial linkages. The reaffirmation of the rating assigned to the bank facilities of M/s Ispat India continues to derive comfort from parentage of the Agrasen group and strong support from group synergy, agreement with Kamdhenu Limited (KL) along with established relationship of the Agrasen Group with KL, semi-integrated nature of operation of the group supported by locational advantage of the manufacturing units and established marketing arrangements. Further, the rating also consider stable operational performance of the Agrasen Group with improvement in its top line and profit margins in FY23, moderate capital structure coupled with healthy debt protection parameters. However, these rating strengths continues to remain constrained due to susceptibility of its operating margin to volatility in raw material prices, presence in highly competitive & fragmented industry and exposure to cyclicality in the steel industry. The outlook is revised from stable to negative on account of possible deterioration in the credit risk profile of the Agrasen group in the near term due to significant debt funded capex in the group entities. The outlook will be revised to stable from negative on satisfactory progress in the projects without any time or cost overrun.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operation with improvement in profitability on a sustained basis
- Improvement in the capital structure and/or improvement in the debt protection metrics
- Efficient working capital management
- Completion of capex with no time or cost overrun

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.
- More than expected debt funded capex leading to deterioration in the capital structure with moderation in the overall gearing to more than 2x
- Any time or cost overrun in ongoing capex impacting the liquidity
- Moderation in liquidity position

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 steel products. Currently, the Agrasen group has two business verticals – Trading and Manufacturing. Under manufacturing vertical, the group is engaged in manufacturing 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, Topper Wire and Fastners (TWF), Devi Iron & Power Private Limited (DIPL) , Hindustan Coils Limited (HCL) , Mahamaya Sponge 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 are 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 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 manufacturing steel wires in Hindusthan Coils Ltd under the brand "Kamdhenu" under 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. 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.

- **Stable operational performance with improvement in top line albeit moderation in profit margins of the Group in FY23**

The combined total operating income (TOI) of the Agrasen Group (manufacturing) improved to Rs.2036.78 crore in FY23 from Rs.1944.33 crore in FY22 with an y-o-y growth of ~5% driven by steady improvement in demand of its manufactured products (i.e. various steel products) leading to increase in sales volume coupled with improvement in average sales realization. With increase in total operating income of the group, absolute EBITDA also improved from, Rs.97.01 crore in FY22 to Rs. 99.33 crore in FY23. Despite increase in absolute EBITDA, EBITDA margin moderated from 4.99% in FY22 to 4.88% in FY23 mainly due to increase in raw material prices (mainly iron ore and coal). With dip in EBITDA margin, combined PAT margin also moderated from 1.78% in FY22 to 1.56% in FY23. In H1FY24, the group has achieved a revenue of Rs.1349.34 crore

- **Moderate capital structure and healthy debt protection parameters of the Group in FY22**

The financial risk profile of the Agrasen group (manufacturing) continued to remain moderate marked by its moderate capital structure and healthy debt protection parameters. The capital structure of the group though continued to remain comfortable with long term debt equity ratio and overall gearing at 0.79x and 1.59x respectively as on March 31, 2023 moderated from 0.70x and 1.42x respectively as on March 31, 2022. The long-term debt of the group has increased during FY23 attributable to on-going capex in Ispat India and in Om Sponge. This apart, to fund its increased scale of operation working capital borrowing has also increased. Despite improved EBITDA, the debt protection metrics marked by interest coverage thpugh continued to remain satisfactory at 2.34x in FY23 (2.91x in FY22) moderated due to increase in finance charges.

Key Rating Weaknesses

- **Ongoing capex**

Ispat India is undergoing a new expansion project, where they are planning to expand its strips capacity by 59400 MTPA, pipes capacity by 35100 MTPA and has plans to set up a solar power plant of 12.5 MW at a total estimated cost of Rs.113.78 crore. The said project is to be funded through promoter's fund of Rs, 38.78 crore and term loan of Rs.75.00 crore i.e, at a debt equity ratio of 1.93:1. Financial closure of the debt is achieved. The firm has already expended a cost of Rs.107.74 crore (around 95% of the project cost) till November 04, 2023, funded through promoter's contribution of Rs.36.92 crore and remaining Rs.69.55 crore through term loan. Expected COD of the project as per Bank Sanction Letter and Project report is September 30, 2024. However, the firm expects to get it started early. Om Sponge is presently undergoing a capex of installing a 5 induction furnace of 22 MT, 12 MW captive power plant and a rolling mill of 2,31,000 MTPA at a total estimated cost of Rs.274.51 croto be funded through promoters contribution of Rs.92.01 crore and term loan of Rs.182.50 crore at a debt equity of 1.98:1. Of total cost of Rs.274.51 crore, the firm has already expended Rs.94.77 crore (around 34.52% of total cost) till September 30, 2023, through term loan of Rs.65.60 crore and remaining through promoters contribution. Bank approved COD for the project is December 31, 2024.

- **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 during FY19 and Topper wire and Fastners during FY22which is also expected to support its overall sponge iron requirement and boost its profitability going forward.

- **Presence in highly competitive & fragmented 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.

- **Exposure to 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: Combined

For arriving at the ratings, Infomerics has combined the financials of Ispat India, Devi Iron & Power Private Limited, Hindustan Coils Limited, Mahamaya Sponge Iron Private Limited, Om Sponge and Topper Wire and Fastners together referred as Agrasen Group as these companies have a common promoter family, common management team and have operational & financial linkages. The list of companies considered for consolidation are given in Annexure 2.

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria on Consolidation of Companies
Criteria of assigning rating outlook
Criteria on Default Recognition

Liquidity – Adequate

The liquidity position of the Agrasen group (manufacturing) is expected to remain adequate characterized by expected sufficient cushion in its cash accruals vis-à-vis its repayment obligations. Further, the group has been earning a comfortable level of gross cash accruals for the last few years and the same is expected to increase further with the increase in scale of operations. Further, the overall gearing of the group also remained at 1.59x as on March 31, 2023 indicating sufficient gearing headroom.

About the Entity

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 Raipur (Chhattisgarh) based the Agrasen group is engaged in manufacturing of MS Billet, MS Strips and MS Pipe. 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 Ambey Indocem Pvt. Ltd, Mr. Vinod

Kumar Singla and Mr. Tarun Kumar Gupta as partners. Mr. Vinod Kumar Singla and Mr. Tarun Kumar Gupta has recently joined the business

About the Group

The Agrasen group is founded by the one 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, minerals and coal.

Financials (Combined):

(Rs. crore)

For the year ended / As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1944.33	2036.78
EBITDA	97.01	99.33
PAT	34.73	31.95
Total Debt	380.85	464.14
Tangible Net worth	269.13	292.31
EBITDA Margin (%)	4.99	4.88
PAT Margin (%)	1.78	1.56
Overall Gearing Ratio	1.42	1.59

**Classification as per Infomerics' standards*

Financials (Standalone):

(Rs. crore)

For the year ended / As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	432.33	456.15
EBITDA	15.55	17.87
PAT	5.02	5.82
Total Debt	73.60	84.66
Tangible Net worth	27.16	40.01
EBITDA Margin (%)	3.60	3.92
PAT Margin (%)	1.15	1.27
Overall Gearing Ratio	2.71	2.12

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: The ratings of Ispat India continue to remain classified under Issuer Not Cooperating category by CARE Edge Ratings as per Press Release dated October 17, 2023 due to unavailability of information.

Any other information: Nil

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	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	65.00	IVR A-; Negative	IVR A-; Stable (May 16, 2023)	-	IVR A-; Stable (March 15, 2022)	IVR BBB+; Stable (December 16, 2020)
2.	Term Loan	Long Term	96.39	IVR A-; Negative	IVR A-; Stable (May 16, 2023)	-	IVR A-; Stable (March 15, 2022)	IVR BBB+; Stable (December 16, 2020)
3.	GECL	Long Term	4.36	IVR A-; Negative	IVR A-; Stable (May 16, 2023)	-	-	-

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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.

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
Cash Credit	-	-	-	65.00	IVR A-; Negative
Term Loan	-	-	September 2034	96.39	IVR A-; Negative
GECL	-	-	October 2026	4.36	IVR A-; Negative

Annexure 2: List of companies considered for consolidated analysis:

Name of the Entities	Consolidation Approach
Ispat India	Full Consolidation
Devi Iron & Power Private Limited	Full Consolidation
Hindustan Coils Limited	Full Consolidation
Mahamaya Sponge Iron Private Limited	Full Consolidation
Om Sponge	Full Consolidation
Topper Wire and Fastners	Full Consolidation

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Ispat-India-jan24.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.