Maharaja Ispat Pvt Ltd

July 08, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	74.11 (enhanced from 53.18)	IVR BBB; Stable (IVR Triple B with Stable Outlook)	Revised from IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Simple
Long Term Bank Facilities- CECF	-	-	Withdrawn	Simple
Short Term Bank Facilities	16.00 (enhanced from 14.00)	IVR A3+ (IVR A Three Plus)	Revised from IVR A3 (IVR A Three)	Simple
Total	**90.11 (Rs. Ninety crore and Eleven lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Maharaja Ispat Pvt Ltd (MIPL) takes into account significant increase in its scale of operation along with increase in profitability and gross cash accruals in FY22 (provisional) leading to satisfactory debt protection metrics. Furthermore, the aforesaid rating continues to derive comfort from its experienced promoter and strategic location of its plant. However, these rating strengths continues to remain constrained by short track record of the company in manufacturing operations, susceptibility of profitability to volatility in the prices of raw materials and finished goods and exposure to geographical concentration risk. Further, the company has repaid its CECF facility and accordingly the ratings assigned to the said facility has been withdrawn.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics.
- Improvement in capital structure with improvement in overall gearing to below 1.5x
- Improvement in receivable period and improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Elongation in receivable period impacting the liquidity
- Withdrawal or non-conversion of unsecured loans from the promoters to equity amounting to Rs.10 crore and/or moderation in overall gearing to more than 2x and moderation in interest coverage ratio to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter

MIPL was promoted by Mr. Navneet Kumar Agarwal in the year 2006. Mr. Agarwal has around 20 years of experience in the iron and steel industry. Mr. Agarwal heads the partnership firm Maharaja which is manufacturing coke for over 15 years. Over the years of its operation, the company has shown steady growth in trading of coke, in the eastern region. Currently, Mr. Agarwal (Director) is at the helm of affairs of the company.

Commencement of repairing of LPG Cylinders and HR sheet cutting

The company has received licence for repairing of LPG cylinders. This would lead to higher revenues. The GOI has come up with a policy, where LPG cylinders needs to be repaired and tested every 5 years, and a cylinder can go through the process of repairing just once, which increases the potential market for MIPL. This apart, during FY21, the company has started cutting and moulding of HR sheet sheets in various shapes and uses for third party. The cutting and moulding are in the form of GP Sheets, GP Shutter, MS Pipe Ring, MS Shutter, ERW Pipe/Tube, GP Shutter guide, MS Shutter guide etc.

Strategic location of plant

The manufacturing facility of MIPL is located in Durgapur, West Bengal, within close vicinity from the top two bottling plants in the eastern region namely Hindustan Petroleum and Indian Oil bottling plants, which will help them save cost in the long run. Further, the plant is very well connected with other nearby places through roadways. Also, the company is planning to expand its facility by little moderations to its plants through which they can manufacture valves which they are procuring from third party currently. Further, MIPL has also received the licence for repairing of gas cylinders which has a potential market which would benefit the company in long run as margins are higher in the repairing segment.

Growth in scale of operations

The company has registered a CAGR of ~51% with a y-o-y growth of ~70% in FY22 to ~Rs.260 crore. The Tube division and LPG cylinder manufacturing division witnessed steady y-o-y growth of ~62% and ~83% respectively in FY22 backed by high demand of LPG cylinders and lancing tubes. Further, rise in revenue from cylinder repairing work also aided the revenue. With growth in operation, the profit levels of the company have also increased from Rs.8.03 crore in FY21 to Rs.12.78 crore in FY22 (prov.). However, due to rise in raw material (steel) price the operating margin dampened from 5.25% in FY21 o 4.90% in FY22. However, driven by rise in EBITDA, the net profit level and net profit margin has improved marginally to 1.97% in FY22 from 1.89% in FY21.

Moderate capital structure with adequate debt protection metrics

The capital structure of MIPL remained moderately leveraged with debt equity ratio at 0.36x and overall gearing ratio at 1.64x as on March 31,2022. Further, with rise in utilisation of bank borrowing to fund the escalated scale of operation the overall gearing moderated as on March 31,2022. However, the debt profile of the company includes unsecured loan from the promoters (Unsubordinated) aggregating to Rs.5.11 crore which is to be remained in the business as indicated by the management. Considering the same as a part of net worth the overall gearing stood at 1.34x as on March 31,2022. Debt protection parameters of the company continued to remain healthy marked by interest coverage ratio at 2.81x in FY22 and Total debt to EBITDA at 4.98x as on March 31,2022.

Key Rating Weaknesses:

Short track record in manufacturing

MIPL has recently ventured into manufacturing of LPG cylinder and Lancing tubes, earlier for 12 years they were a trading in coke. They have been operating the manufacturing facility for the past one and a half years only.

Susceptibility of profitability to volatility in the prices of raw materials and finished goods

The price of steel has seen a lot of volatility over the last three years. The price of HR coil, which is one of the main raw materials required for MIPL, has witnessed volatility in the recent past. Similarly, the price realisation for LPG Cylinders are also linked to the input prices, where there could be squeezing of margin when the input cost increase is not fully absorbed in the selling prices.

Exposure to geographical concentration risk

MIPL mainly caters to the state of West Bengal and plans to service the eastern region. Though there are less number of cylinder and lancing tube manufacturer in the country, the company is likely to face lesser demand in the urban markets with introduction of pipeline gas. Hence, the company is exposed to geographical concentration risk. However, the company has begun efforts to strengthen its brand presence and grow its sales in other states.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Policy on Withdrawal

Liquidity: Adequate

The liquidity profile of MIPL is expected to remain adequate marked by its expected satisfactory cash accruals vis a- vis its debt repayment obligations in FY23. During last 12 months ending in March 2022, average utilisation of bank borrowing was around ~75% indicating an adequate liquidity buffer. However, the liquidity profile is restricted due to its working capital-intensive nature of operations.

About the Company

Incorporated on April 25, 2006, Durgapur based Maharaja Ispat Pvt Ltd (MIPL) was promoted by one Mr. Navneet Kumar Agarwal. MIPL, since inception, was engaged in trading of coke and coal. However, they began setting up a manufacturing unit for production of LPG cylinders and lancing tubes in the year 2017. The plant started its operations from January, 2018. The manufacturing facility of the company is located at Durgapur with an installed capacity of 12000 MTPA for Lancing Tubes and 7650 LPG Cylinders per year. MIPL has obtained licence for production of LPG Cylinders from Bureau of Indian Standards in June 2018. Also, MIPL has started repairing of cylinders as another business segment due to the increasing demand. As per regulatory requirements, every cylinder has to be repaired after five years of usage, which would add to the profitability in the coming years also.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	152.85	260.67
EBITDA	8.03	12.78
PAT	2.90	5.15
Total Debt	40.73	63.70
Tangible Net worth	38.69	43.86
EBITDA Margin (%)	5.25	4.90
PAT Margin (%)	1.89	1.97
Overall Gearing Ratio (x)	0.92	1.34

*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 Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2019-20
1	Term loan (incl. prop)	LT	4.52	IVR BBB / Stable	IVR BBB- / Stable (07.09.2021)	IVR BBB- / Stable (31.03.2021)	IVR BB+ / Positive (30.01.2020)	IVR BB+; Positive (09.01.2020)
2	Cash Credit (incl. prop)	LT	50.00	IVR BBB / Stable	IVR BBB- / Stable (07.09.2021)	IVR BBB- / Stable (31.03.2021)	IVR BB+ / Positive (30.01.2020)	IVR BB+; Positive (09.01.2020)
3	GECL	LT	1.82	IVR BBB / Stable	IVR BBB- / Stable (07.09.2021)	IVR BBB- / Stable (31.03.2021)	-	-
4	GECL Extension	LT	4.77	IVR BBB / Stable	-	-	-	-
5	GECF/ CECF	LT	-	Withdrawn	IVR BBB- / Stable (07.09.2021)	IVR BBB- / Stable (31.03.2021)	-	-
6	Channel Finance	LT	13.00	IVR BBB / Stable	IVR BBB- / Stable (07.09.2021)	-	-	-
7	BG (incl. prop)	ST	16.00	IVR A3+	IVR A3 (07.09.2021)	IVR A3 (31.03.2021)	IVR A4+ (30.01.2020)	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri Tel: (033) 46022266 Email: slahiri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics Ratings:

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 Fund Based Limits – Term loan	-	-	March 2025	4.52	IVR BBB/Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	50.00	IVR BBB/Stable
Long Term Fund Based Limits – GECL	-	-	-	1.82	IVR BBB/Stable
Long Term Fund Based Limits – GECL Extension	-	-	-	4.77	IVR BBB/Stable
Long Term Fund Based Limits – Channel Finance	-	-	-	13.00	IVR BBB/Stable
Short Term Non-Fund Based Limits – BG	-	-	-	16.00	IVR A3+

Annexure 2: Facility wise lender details:
. https://www.infomerics.com/admin/prfiles/Len-Maharaja-Ispat-july22.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.