Press Release

Maiden Forgings Pvt Ltd

October 20, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	61.17 (enhanced from 59.00)	IVR BBB-/ Stable (IVR Triple B minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	3.00 (enhanced from 1.00)	IVR A3 (IVR A three)	Reaffirmed	Simple
Total	**64.17 (Sixty-four crore and seventeen lakh rupees only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Maiden Forgings Pvt Ltd (MFPL) continues to derive comfort from its experienced promoters with long track record of operations, persistence stable financial performance and average financial risk profile marked by moderate capital structure with average debt protection metrics. However, these rating strengths are partially offset by exposure to intense competition, susceptibility of margins to fluctuations in raw material prices, working capital intensive nature of 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 operating cycle
- Improvement in capital structure with improvement in overall gearing to below 2x and/or improvement in debt protection metrics with interest coverage ratio above 2.5x on sustained basis

Downward Factors

- More than expected moderation in operating income and/or cash accrual impacting the debt protection metrics on a sustained basis

- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 3x and interest coverage to below 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long track record of operations**

MFPL is promoted by Late Sanjay Garg having an experience of more than three decades in the steel industry. Currently, his son, Mr. Nishant Garg is looking after day-to-day affairs of the company who has an experience of around a decade in the industry. The company started operation from 2005, thus, long presence in the industry underpins its business risk to an extent.

- **Persistence stable financial performance**

Despite interrupted operations due to second wave of Covid-19 pandemic during Q1FY22, the company was able to maintain its topline over Rs. 200 crore. EBITDA margin of the company declined by 97bps in FY22 on account of higher overhead expenses. However, PAT margin of the company, though remained thin, has improved in FY22 over FY21 on the back of decrease in interest expenses. Furthermore, during H1FY23 the company has registered a topline of ~Rs. 108 crore with a net profit of ~Rs. 4.10 crore.

- **Average financial risk profile marked by moderate capital structure with average debt protection metrics**

The financial risk profile of the company remained average marked by its moderate capital structure with average debt protection metrics. The capital structure of the company remained leveraged as on the past three account closing dates. The promoters have infused equity aggregating to Rs.5.93 crore in FY21. Though the long term debt equity ratio has improved as on March 31, 2022, with the repayment of term loan, overall gearing has further deteriorated as on March 31, 2022, with higher utilisation of bank borrowing to fund the escalated scale of operation. The debt protection metrics of the company remained average over the past three fiscals. The interest coverage ratio has improved and remained satisfactory at 2.05x in FY22 (1.91x in FY21). However, total debt to GCA deteriorated and stood high at 12.65 years in

FY22 (10.87 years in FY21). However, the total indebtedness of the company remined satisfactory at 2.53x as on March 31,2022. Further, Infomerics expects improvement in the capital structure in the near term with no near-term debt funded capex plan.

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, MFPL also faces competition from the organized sector players.

- **Susceptibility of margins to fluctuations in raw material prices**

The main raw materials used by MFPL are steel bars and rods etc. 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 company 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 MFPL.

- **Working capital intensive nature of operation**

The operation of the company is working capital intensive in nature. The company 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 72 days for FY22 as compared to 59 days in FY21. Furthermore, the company offers a credit period of around 1-2 months to its customers owing to its presence in highly competitive industry resulting in average collection period of 52 days for FY22, improved from 59 days in FY21. However, it receives a credit period of 15-30 days from its suppliers. The operating cycle of the company stood at 106 days in FY22 as compared to 93 days in FY21. The average working capital utilization remained high at around 92% over the past 12 months ended September 2022.

- **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: Standalone

Applicable Criteria

- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria for assigning rating outlook

Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY23-FY25. Moreover, the current ratio was adequate at 1.37 times in FY22. The average fund based utilisation for the past twelve months ended September, 2022, remained high at ~92% indicating a lower head room. However, absence of any debt funded capex provides further comfort to the liquidity position.

About the Company

Delhi based Maiden Forgings Private Limited (MFPL) was incorporated in February, 2005 by Late Mr. Sanjay Garg. MFPL is currently being managed by Mr. Nishant Garg, director and son of Mr Sanjay Garg and Mrs. Nivedita Garg, director and wife of Mr Sanjay Garg MFPL is engaged in the manufacturing of various types of bright steel bars and wires which is used for manufacturing of automotive components like Axel, clutch etc. MFPL is primarily a Tier 2 supplier of automotive components and supplying to various tier 1 suppliers. The company has three manufacturing facility based at Ghaziabad with total installed capacity of around 31500 metric tons per annum of bright bars and wires.

Financials (Standalone): (Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Audited

Total Income	199.37	210.84
EBIDTA	13.44	12.16
PAT	1.69	2.19
Total Debt	60.80	69.52
Tangible Net Worth	29.02	31.21
EBDITA Margin (%)	6.74	5.77
PAT Margin (%)	0.85	1.04
Overall Gearing Ratio (x) on Net Adjusted TNW	2.10	2.23

**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/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Aug 04, 2021)	Date(s) & Rating(s) assigned in 2021-22 (July 27, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	7.71	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
2.	Cash Credit (incl FBWC)	Long Term	44.40	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
3.	Proposed Cash Credit	Long Term	-	-	IVR BBB-/ Stable	-	-
4.	Covid Loans	Long Term	0.92	IVR BBB-/ Stable	-	-	-
5.	Business Loans	Long Term	0.68	IVR BBB-/ Stable	-	-	-
6.	Equipment Loan	Long Term	7.46	IVR BBB-/ Stable	-	-	-
7.	Letter of Credit	Short Term	3.00	IVR A3	IVR A3	-	-

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About Infomerics:

Press Release

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
Term Loan 1	-	-	August 2024	3.26	IVR BBB-/Stable
Term Loan 2	-	-	June 2028	4.45	IVR BBB-/Stable
Business Loan 1	-	-	April 2024	0.29	IVR BBB-/Stable
Business Loan 2	-	-	April 2023	0.10	IVR BBB-/Stable
Business Loan 3	-	-	April 2024	0.29	IVR BBB-/Stable
Equipment Loan 1	-	-	April 2023	0.28	IVR BBB-/Stable
Equipment Loan 2	-	-	March 2023	0.22	IVR BBB-/Stable
Equipment Loan 3	-	-	February 2023	0.08	IVR BBB-/Stable
Equipment Loan 4	-	-	October 2022	0.02	IVR BBB-/Stable
Equipment Loan 5	-	-	March 2027	3.00	IVR BBB-/Stable
Equipment Loan 6	-	-	December 2023	0.59	IVR BBB-/Stable
Equipment Loan 7	-	-	June 2027	1.97	IVR BBB-/Stable
Equipment Loan 8	-	-	March 2024	1.30	IVR BBB-/Stable
Covid Loan 1	-	-	September 2024	0.34	IVR BBB-/Stable
Covid Loan 2	-	-	August 2024	0.15	IVR BBB-/Stable
Covid Loan 3	-	-	August 2024	0.07	IVR BBB-/Stable
Covid Loan 4	-	-	September 2024	0.36	IVR BBB-/Stable
Cash Credit 1	-	-	-	16.50	IVR BBB-/Stable
Cash Credit 2	-	-	-	23.00	IVR BBB-/Stable
FBWC (eDFS)	-	-	-	4.90	IVR BBB-/Stable
LC 1	-	-	-	1.50	IVR A3
LC 2	-	-	-	1.50	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Maiden-Forgings-oct22.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.