Mono Steel (India) Limited

July 21, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	52.00	IVR BBB+/Stable (IVR Triple B plus with Stable Outlook)	Reaffirmed with Stable outlook and removed from Issuer Not Cooperating category	Simple
Short Term Bank Facilities	188.00	IVR A2 (IVR A Two)	Reaffirmed and removed from Issuer Not Cooperating category	Simple
Total	**240.00 (INR Two Hundred Forty Crore Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has now removed the ratings assigned to the bank facilities of Mono Steel (India) Limited (MSIL) from the Issuer Not Cooperating category based on adequate information received from the client for review of its ratings.

The reaffirmation of the ratings assigned to the bank facilities of Mono Steel (India) Limited continue to derive comfort from its experienced promoters, partially integrated manufacturing facility and presence of established brand with strong distribution network. The ratings also consider steady cash flows from its solar power plant, comfortable capital structure and improvement in profitability in FY22. However, these rating strengths continue to remain partially offset by intense competition in its operating spectrum and exposure to foreign currency fluctuation risk. Besides, the overall profitability remains vulnerable to fluctuations in raw material and finished goods prices along with exposure to cyclicality in steel industry.

Earlier the ratings were placed under credit watch with developing implications owing to uncertainty about steel demand amid a challenging operating environment due to the Covid19 pandemic, now it is removed from credit watch with steady improvement in demand of steel products.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and improvement in debt protection metrics
- Improvement in liquidity and operating cycle

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators, deterioration in working capital management
- Moderation in the capital structure with moderation in overall gearing to above 1.5x
- Deterioration in liquidity and operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the steel industry

MSIL's promoters have long-standing experience in the steel industry. Apart from steel industry, the promoters have business interest in various other sectors like ship breaking, oxygen plant, mining, steel & scrap trading. Presently, Mr. Jaisukhbhai Mavjibhai Shah and Mr. Bhupatbhai Mavjibhai Shah, brothers by relation both having an experience of around three decades in the steel industry are at the helm of affairs of the company.

Operational efficiency by virtue of having partially integrated manufacturing facility

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. MSIL's backward integration to produce billets to meet a part of its raw material requirement for TMT coupled with 12MW captive power generation capacity utilizing waste heat recovered from the sponge iron kilns, which is meeting about 60% of its power requirements. Access to captive power also plays a vital role in terms of operational integration due to energy intensive nature of manufacturing and leads to cost optimisation. Partially integrated nature of operation provides a competitive edge over other regional re-rollers without backward integrated facilities.

Established brand and marketing arrangements

The company produces ISI marked billets and premium grade ISI marked TMT bars. Products of MSIL are approved by many governments, semi-government and private organizations. It sells TMT bars under the brand name of 'Mono TMT'. The brand is well established in the state of Gujarat as well as in the nearby regions. Further, the company has developed a well-established marketing network with around 150-200 dealers and distributors to sell TMT bars in the state of Gujarat.

Steady cash flow from solar power plant and low counter party risk

MSIL has established a 10 MW Solar power plant under Government of Gujarat Policy -2009 in FY12. The company has entered in a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited at rate of Rs.15 per Kwh for first 12 years and Rs.5 for the remaining 13 years which provides sound revenue visibility along with low counter party risk, GUVNL being the off-taker. The company has a steady revenue of ~Rs.23.57 crore in FY21 from its solar power plant which is sufficient to service its debt obligations which imparts comfort to the credit risk profile of the company. However, in FY22 solar plant operations were affected due to Taukte Cyclone in May 2021.

Financial profile characterised by conservative capital structure marked by strong net worth base leading to satisfactory gearing

The capital structure of the company remained comfortable underpinned by its strong net worth base of Rs 232.23 crore as on March 31, 2022 and lower reliance on debts. To arrive at the net worth, Infomerics has considered unsecured loans from promoters/ directors amounting to Rs.18.38 crore of as quasi equity as the same is subordinated to the bank facilities. The overall gearing ratio continued to remain comfortable and stood at 0.76x as on March 31, 2022. (0.69x as on March 31, 2021 and 0.67x as on March 31, 2020). Apart from its working capital limits the company also uses fixed deposit backed overdrafts to fund its working capital requirements. Moreover, total indebtedness of the company as reflected by TOL/ATNW also remained comfortable at 1.19x as on March 31, 2022 (1.31x as on March 31, 2021). Moreover, due to increase in overall profitability, the debt protection metrics improved with interest coverage ratio at 2.80x (2.37x in FY21). Going forward, Infomerics believes the financial risk profile to remain healthy as MSIL has lower reliance on external debt and maintained a conservative capital structure.

Improvement in profitability

Total operating income witnessed a y-o-y decline from Rs.1270.44 crore in FY21 to Rs. 954.23 crore in FY22 due to lower export sales. Earlier the company mostly exports Billets, during FY22 the company has reduced its Billet export and utilised the Billets largely for its captive consumption which led to drop in export sales whereas the EBITDA margin has improved. The EBITDA margin improved on the back of use of Billets for captive consumption and higher average sales realisation across all product segment along with better operating efficiency with the replacement of the billet furnace. The new furnace started commercial production from December 2020. With rise in absolute EBITDA and drop in interest outgo the PAT margin also improved from 0.42% in FY21 to 1.19% in FY22.

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices and finished goods

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw materials required for manufacturing billets are coal, iron ore and sponge iron while billets are the main raw material for producing TMT bars. MSIL uses both sponge iron and billets as captive consumption for manufacturing of billets and TMT bars respectively. However, it does not have any backward integration for its basic raw materials (iron ore & coal) and has to purchase the same from open market. MSIL mostly procure imported coal from local importers. Moreover, it also procures some part of its billet requirements from the open market. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices. (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including MSIL.

Foreign currency fluctuation risk

MSIL had export sales of Rs. 10.64 crore in FY22 (Rs.263.69 crore in FY21). Further, the company is largely dependent on imports of coal. Consequently, the company remains exposed to the fluctuations in forex rates. Due to the presence of both exports and imports, there exists natural hedging to some extent. However, in absence of proper hedging policy the company is exposed to foreign currency fluctuation risk.

Cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including MSIL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity profile of MSIL is expected to remain adequate with its satisfactory cash accruals vis a- vis its debt repayment obligations. The current ratio of the company was also comfortable at 1.48x as on March 31, 2022. Moreover, the company has sufficient gearing headroom due to its comfortable capital structure.

About the Company

Incorporated in 1992, Gujarat based Mono Steel (India) Limited (MSIL) is engaged in manufacturing of sponge iron, billets and TMT bars with an installed capacity of 1,20,000 MT of sponge iron, 1,00,000 MT of billets and 1,00,000 MT of TMT bars. The company also has a 12MW (6MW each for Waste Heat Recovery System and Coal based thermal plant) captive power plant to support its operation. The steel manufacturing unit of the company is located at Dist. Kutch, Gujarat. Moreover, the company also has a 10MW Solar Power plants located at Una near Diu. The power plant of the company is having a PPA with Gujarat Urja Vikas Nigam Limited (GUVNL) for 25 years.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	**Provisional**
Total Operating Income	1270.44	954.23
EBITDA	34.77	38.64
PAT	5.37	11.38
Total Debt	151.70	176.70
Tangible Net worth	220.86	232.23
EBITDA Margin (%)	2.74	4.05
PAT Margin (%)	0.42	1.19
Overall Gearing Ratio (x)	0.69	0.76

**Classification as per Infomerics' Standard*

Status of non-cooperation with previous CRA:

CRISIL has maintained the rating of MSIL 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 November 9, 2021.

Brickwork Ratings has maintained the rating of MSIL 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 December 2, 2021.

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	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	52.00	IVR BBB+/ Stable	IVR BBB+; Issuer Not Cooperating (June 28, 2022)	-	IVR BBB+ (Credit Watch with Developing Implications) (March 30, 2021)	IVR A-/Stable (December 31, 2019)

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	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
2.	Letter of Credit	Short Term	188.00	IVR A2	IVR A2; Issuer Not Cooperating (June 28, 2022)	-	IVR A2 (Credit Watch with Developing Implications) (March 30, 2021)	IVR A2+ (December 31, 2019)

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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.

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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	-	-	-	52.00	IVR BBB+/Stable Outlook
Letter of Credit	-	-	-	188.00	IVR A2

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-monosteel-jul2022.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.