



## Press Release

### Nav Durga Fuel Private Limited

December 30, 2021

#### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	86.64 (enhanced from 63.50)	IVR BBB/Stable outlook (IVR Triple B with Stable outlook)	Re-affirmed and removed from Credit Watch
Short term Bank Facilities	8.00	IVR A3+ (IVR A Three Plus)	Re-affirmed and removed from Credit Watch
<b>Total</b>	<b>94.64</b> <b>(Rs. Ninety four crore and sixty four lakh only)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Nav Durga Fuel Private Limited (NDFPL) continues to derive comfort from its experienced promoters, locational advantage, semi-integrated nature of its operations and established brand name of its product. The ratings also note improvement in NDFPL's financial performance in H1FY22 after a stable financial performance in FY21, conservative capital structure and strong debt coverage metrics. However, these rating strengths are constrained due to susceptibility of its profitability to volatility in prices of its raw materials and finished products, competitive nature of the industry and NDFPL's exposure to the cyclicity inherent in the steel industry.

Earlier the ratings were placed under credit watch with developing implications owing to uncertainty about steel demand & sales realisations amid a challenging operating environment due to the Covid-19 pandemic, now it is removed from credit watch with steady improvement in demand of steel products coupled with rise in sales realisations.

#### Key Rating Sensitivities:

##### Upward rating factor

- Growth in scale of operations with further improvement in profitability



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- Sustenance in the capital structure with improvement in the debt protection metrics
- Improvement in operating cycle with improvement in liquidity

### **Downward rating factor**

- Sustained moderation in scale of operations with moderation in profitability
- Deterioration in capital structure with moderation in overall gearing to over 1x and/or moderation in interest coverage to below 3x
- Elongation in the operating cycle impacting the liquidity

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Extensive experience of the promoters in the steel industry**

The promoter of NDFPL has around two decades of experience in trading and manufacturing of iron and steel products. While Mr. Nimish Gadodia (Director) is at the helm of affairs of the company & looking after the business development & finance functions, Mr. Deepak Kumar Sharma looks after the production and purchase functions of the company. Both the promoters have more than a decade of experience in trading and manufacturing of iron and steel products.

##### **Locational advantage**

The manufacturing facilities of NDFPL is in Raigarh, Chhattisgarh which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron and iron scrap. Further, sourcing of iron ore from Odisha and coal from nearby coal mines is not an issue. Presence in steel belt reduces the business risk to an extent.

##### **Semi-integrated nature of operations**

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. The manufactured MS billets are used to produce TMT bars. Further, to support its operations the company also has a 12MW captive power generation capacity. Semi-integrated nature of operations coupled with proximity to the source of raw materials & end user market provides a competitive edge to the company. Further, presence of coal washery also strengthens the business risk profile of the company. Currently, the company is setting up 132/33 KVA Line and Sub Station at a total estimated cost of Rs. 22.12 crore, which is to be funded by term loan of Rs. 16.50 crore and the remaining Rs. 5.62 crore by promoters'



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contribution. The project is expected to complete by September 2022. The project is expected to enhance power supply and reduce power cost by Rs 0.50 per unit.

### **Established brand**

The company markets its TMT bars under the brand name of, 'SRISHTI'. The company has been able to establish its brand over the course of its operations with a focussed advertising campaign to raise brand awareness and recall. The brand is well established in the markets like UP, Chhattisgarh.

### **Improvement in financial performance in H1FY22 after a stable performance in FY21**

The total operating income of the company moderated by ~7% from Rs. 324.67 crore in FY20 to Rs.303.30 crore in FY21 as company's operations were affected in the month of April 2020 owing to covid-19 pandemic. Moreover, in FY21 there was no sale of sponge iron to outside parties, and it was entirely consumed captively whereas in FY20, the company generated Rs. 30.32 crore from sale of sponge iron. However, domestic steel demand situation improved gradually over the subsequent months with easing of restrictions and pick-up in economic activity. Average sales realisations for TMT bars improved from Rs. 32786/mt in FY20 to Rs. 37269/mt in FY21 and Rs. 46303/mt in H1FY22. The operating margin remained stable at ~8.8% in FY21. In H1FY22, the company achieved revenue of Rs. 208.64 crore (in H1FY21: ~Rs.128 crore).

### **Satisfactory capital structure with comfortable debt protection metrics**

The overall gearing ratio of the company remained comfortable and improved from 0.25x as on March 31, 2020 to 0.20x as on March 31, 2021 supported by accretion of profit to net worth and capital infusion in the form of unsecured loan. The unsecured loans from promoters/directors/related parties of Rs.26.72 crore as on March 31, 2021 will remain in the company till currency of the bank loan (as mentioned in the bank sanction letter and undertaking received from the company) and the same has been considered as quasi-equity. Considering the same the net worth of the company continued to remain robust at Rs.254.75 crore. However, during FY21 the company has made investment worth Rs.20.54 crore in group/related entities as a part of their growth strategy due to the current buoyancy in the steel industry. Excluding the said investments, the adjusted tangible net worth stood at Rs.234.21 crore. The debt protection metric



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continues to remain comfortable with the interest coverage ratio at 5.38x in FY21, Total debt/GCA at 2.20 years and TOL/TNW at 0.47x as on March 31, 2021.

### **Key Rating Weaknesses**

#### **Profitability susceptible to volatility of raw materials and finished products**

Raw material consumption is the major cost component for NDFPL as it procures iron ore & coal from open market, in absence of captive mines. Since, the raw material is the major cost driver in the metal sector the prices remain volatile thus impacting the profitability of the company, hence susceptible to fluctuation of price across the value chain.

#### **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 NDFPL. High share of low margin TMT bar sales constraints margins to an extent.

#### **Cyclical nature of steel industry**

Steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including NDFPL. 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 demand-supply dynamics in the real estate sector.

#### **Analytical Approach:** Standalone

#### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

#### **About the Company**

Nav Durga Fuel Pvt Ltd (NDFPL), incorporated in February, 2004 was promoted by Mr G.S. Agarwal and the company was taken over by the Gadodia family of Odisha. The company is mainly engaged in manufacturing of sponge iron (90,000MTPA), Billets (79,200MTPA) and TMT

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bar (90,000MTPA). The company also has a coal washery (30,000MTPA) for beneficiation of coal and a fly ash brick manufacturing facility (4,000MTPA). The manufacturing facilities of the company are located at Raigarh, Chhattisgarh. To support its manufacturing operations the company also has a 12 MW captive power plans (7MW waste heat recovery-based power plant and a 5MW AFBC power plant).

### Financials: Standalone

(Rs. crore)

For the year ended*/ As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	324.67	303.30
EBIDTA	28.80	26.71
PAT	12.53	9.81
Total Debt	55.24	51.04
Tangible Net worth	218.23	254.75
EBIDTA Margin (%)	8.87	8.81
PAT Margin (%)	3.85	3.20
Overall Gearing Ratio (x)	0.25	0.20

\*as per Infomerics standards

**Status of non-cooperation with previous CRA:** Vide the last press releases dated July 26, 2021 and March 01, 2021, CRISIL and CARE, respectively, have moved the rating to issuer non cooperating category due to non-submission of information.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (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	55.00	IVR BBB/Stable	IVR BBB (Under Credit watch with developing implications) Jan 5, 2021	IVR BBB (Under Credit watch with developing implications) Dec 8, 2020	IVR BBB/ Outlook: Stable Oct. 10, 2019	-



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2	SLC	Long Term	3.00	IVR BBB/Stable	IVR BBB (Under Credit watch with developing implications) Jan 5, 2021	-	-	-
3	CECL	Long Term	2.82	IVR BBB/Stable	IVR BBB (Under Credit watch with developing implications) Jan 5, 2021	-	-	-
4	GECL	Long Term	9.32	IVR BBB/Stable	-	-	-	-
5	Bank Guarantee	Short Term	2.00	IVR A3+	IVR A3+ (Under Credit watch with developing implications) Jan 5, 2021	IVRA3+ (Under Credit watch with developing implications) Dec 8, 2020	IVRA3+ Oct. 10, 2019	-
6	Letter of Credit	Short Term	6.00	IVR A3+	IVR A3+ (Under Credit watch with developing implications) Jan 5, 2021	IVR A3+ (Under Credit watch with developing implications) Dec 8, 2020	IVR A3+ Oct. 10, 2019	-



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7	Proposed Term Loan	Long Term	16.50	IVR BBB/Stable	-	-	-	-

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	55.00	IVR BBB/Stable
SLC	-	-	-	3.00	IVR BBB/Stable
CECL	-	-	June 2022	2.82	IVR BBB/Stable
GECL	-	-	February 2025	9.32	IVR BBB/Stable
Term Loan (Proposed)	-	-	-	16.50	IVR BBB/Stable
Bank Guarantee	-	-	-	2.00	IVRA3+
Letter of Credit	-	-	-	6.00	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/Nav-Durga-Fuel-lenders-dec21.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Annexure 5: Complexity level of the rated Instruments/Facilities**

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	SLC	Simple
3.	CECL	Simple
4.	GECL	Simple
5.	Term Loan	Simple
6.	Bank Guarantee	Simple
7.	Letter of Credit	Simple

**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](http://www.infomerics.com).