Nav Durga Fuel Private Limited

April 02, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	86.64	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short-Term Bank Facilities	8.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**94.64 (INR Ninety four crore and sixty four lakh only)**			

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) considers steady business performance of the company in FY23 and subsequently in 11MFY24 coupled with its conservative capital structure and comfortable debt coverage metrics and improvement in its operating cycle. Further, the ratings continue to derive comfort from extensive experience of its promoters in the steel industry, locational advantage, semi-integrated nature of its operations and established brand name of its product. 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 steel industry, NDFPL's exposure to group companies and exposure to cyclicality in the steel industry.

Key Rating Sensitivities:

Upward factors

- Growth in scale of operations with further improvement in profitability and gross cash accruals
- Sustenance of the capital structure with improvement in the debt protection metrics
- Reduction in exposure to group companies

Downward Factors

- Sustained moderation in scale of operations with moderation in profitability marked by dip in EBITDA margin to below 5%
- Any unplanned capex leading to deterioration in capital structure with moderation in overall gearing to over 1x and/or moderation in interest coverage to below 3x
- Moderation in working capital management impacting the liquidity
- Sharp increase in exposure in group companies

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.

- **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 Uttar Pradesh, Chhattisgarh.

- **Stable business performance in FY23 and in 11MFY24**

The total operating income of the company registered a y-o-y growth of ~23.18% in FY23 as the topline has improved and stood at Rs.629.15 crores in FY23 against Rs.510.76 crore in FY22 driven by improvement in sales volume on the back of increased demand for iron & steel products leading to higher capacity utilisation coupled with better sales realization. Despite the increase in absolute EBITDA from Rs.36.85 crore in FY22 to Rs.44.10 crore in FY23 supported by higher average sales realisation per ton, the EBITDA margin has slightly moderated yet remains satisfactory at 7.01% in FY23 as compared to 7.21% in FY23. Driven by the reduction in interest outgo, PAT level has improved on the back of rise in absolute EBITDA in FY23. Consequently, gross cash accruals have also improved to Rs.29.28 crore in FY23 from Rs. 25.44 crore in FY22. In FY24, till February 2024, the company has already managed to churn out revenue of ~Rs. 567 crore.

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

The capital structure of the company continues to remain comfortable in FY23. The tangible net worth (ATNW) of the company after considering the NDFPL's investment and loans & advance in group companies amounting to ~Rs.63.64 crore stood at Rs.194.86 crore as on March 31, 2023. The adjusted overall gearing ratio though moderated, stood comfortable at 0.62x as on March 31,2023 (0.49x as on March 31, 2022). Further, Total indebtedness of the company remained comfortable marked by TOL/ATNW at 0.97x as on March 31, 2023. The debt protection metrics of the company as indicated by interest coverage ratio has improved and continues to remain comfortable at 5.52x in FY23 against 4.38x in FY22. Further, Total debt to EBITDA also improved and remains comfortable at 2.73x and Total debt to GCA at 4.12 years as on March 31,2023.

- **Improvement in working capital management**

The operating cycle of the company improved to 58 days in FY23 (against 88 days in FY22) driven by improvement in debtor cycle, inventory cycle.

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 proportion of low margin TMT bar sales in the total revenue constraints the profit margins to an extent.

- **Exposure to group companies**

NDFPL has made investments and extended loans & advances to its various group companies aggregating to Rs.63.64 crore (~25% of its tangible net worth as on March 31,2023). Moreover, NDFPL has also extended corporate guarantee to Rourkella Sponge LLP (rated: IVR BBB-/Stable) for its bank facilities. Exposure to group companies restricts the credit risk profile of the company to an extent.

- **Exposure to cyclicality in the steel industry due to domestic and global input prices and**

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)

Criteria of assigning rating outlook

Policy on default recognition

Criteria on complexity

Liquidity: Strong

NDFPL has strong liquidity with satisfactory cash accruals vis-a-vis its debt repayment obligation during FY24-FY26. The company has projected to earn gross cash accruals in the range of ~Rs.31.00-Rs.37.00 crore as against its projected debt repayment obligation in the range of ~Rs.5.80 – 1.75 crore during FY24-26. Further, investment in liquid mutual fund of Rs. 15.35 crore as on September 30, 2023 provide further liquidity cushion.

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 bar (90,000MTPA). The company also has a coal washery (30,0000MTPA) for 5 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 of Nav Durga Fuel Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	510.76	629.15
EBITDA	36.85	44.10
PAT	11.34	14.21
Total Debt	107.69	120.50
Tangible Net worth	239.38	258.50
Tangible Net worth (Adjusted)	218.84	194.86
EBITDA Margin (%)	7.21	7.01
PAT Margin (%)	2.21	2.26
Overall Gearing Ratio (Adjusted) (x)	0.49	0.62
Interest Coverage Ratio (x)	4.38	5.52

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Vide the last press releases dated May 31, 2023 and June 15, 2023, CRISIL rating and CARE Edge rating, respectively, have maintained the rating to issuer non cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23 (Jan 30, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Dec 30, 2021)
1.	Cash Credit	Long Term	55.00	IVR BBB+ Stable	-	IVR BBB+ Stable	IVR BBB/ Stable
2.	SLC	Long Term	3.00	IVR BBB+ Stable	-	IVR BBB+ Stable	IVR BBB/ Stable
3.	GECL	Long Term	8.78	IVR BBB+ Stable	-	IVR BBB+ Stable	IVR BBB/ Stable
4.	Bank Guarantee	Short Term	2.00	IVR A2	-	IVR A2	IVR A2
5.	Letter of Credit	Short Term	6.00	IVR A2	-	IVR A2	IVR A2
6.	Proposed Fund based	Long Term	19.86	IVR BBB+ Stable	-	-	-
7.	Term Loan	Long Term	-	Withdrawn*	-	IVR BBB+ Stable	IVR BBB/ Stable

***Long Term loan amounting to Rs.16.50 crore which was rated earlier is repaid.**

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About Infomerics Ratings:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – GECL	-	-		8.78	IVR BBB+; Stable
Long Term Fund Based Limits – Cash Credit	-	-		55.00	IVR BBB+; Stable
Long Term Fund Based Limits – SLC	-	-	-	3.00	IVR BBB+; Stable
Short Term Non Fund Based Limits – Bank Guarantee	-	-		2.00	IVR A2
Short Term Non Fund Based Limits – Letter of Credit	-	-	-	6.00	IVR A2
Long Term Fund Based Limits – (Proposed)	-	-	-	19.86	IVR BBB+; Stable

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-NavDurgaFuel-apr24.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.