Press Release

Nilkanth Concast Private Limited (NCPL)

March 21, 2024

Ratings:

Type of Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund based Facility – Term Loan	42.33 (Increased from 4.47)	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Upgraded and removed from ISSUER NOT COOPERATING category/Assigned	Simple
Long Term Fund based Facility – Cash Credit	43.00	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Upgraded and removed from ISSUER NOT COOPERATING category	Simple
Long Term Fund based Facility – Working Capital Limit	14.59 (Reduced from 18.59)	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Upgraded and removed from ISSUER NOT COOPERATING category	Simple
Long Term Fund Based Facility – GECL	2.69	-	Withdrawn*	Simple
Long Term Fund Based Facility – CC (Proposed)	4.04	-	Withdrawn**	Simple
Short Term Non-Fund Based Facility – BG	7.29 (Increased from 7.21)	IVR A3+ (IVR A Three Plus)	Upgraded and removed from ISSUER NOT COOPERATING category	Simple
Total	**107.21 (Rupees one hundred and seven crore twenty-one lakh only)**			

*****Facility has been paid in full*

***The company has not proceeded with the debt facility as envisaged*

The rating of GECL has been withdrawn as the facility amounting to Rs. 2.69 Crore has been repaid in full and No due Certificate has been received from the banker and the proposed CC facility of Rs. 4.04 Crore is not availed by the company as envisaged. The company request for withdrawal has also been received. The rating is withdrawn in accordance with Infomerics' policy on withdrawal and as requested by the company.

Details of facilities are in Annexure 1

Detailed Rationale

Infomerics had migrated the Rating assigned to bank facilities of Nilkanth Concast Private Limited (NCPL) to the 'ISSUER NOT COOPERATING' category vide press release dated November 28, 2023 because of non-receipt of information for monitoring the rating. Subsequently, the company has provided the requisite information. Based on this, Infomerics has removed the rating from the 'ISSUER NOT COOPERATING' category.

The upgradation of the ratings to the bank facilities of Nilkanth Concast Private Limited (NCPL) continues to derive comfort from the extensive experience of the promoters and management, improved operating revenue along with debt protection metrics and capital structure, semi-integrated nature of operation of the group, strategic capital expenditure and its positive impact on the profitability and long-standing relationship with dealers/ distributors.

However, the rating is constrained by susceptibility of operating margin to volatility in raw material prices, cyclicality in the steel industry and highly competitive nature of the industry.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of business and improvement in profitability metrics with EBITDA margin more than 5% and thereby leading to overall improvement in cash accruals on a sustained basis.

Downward Factor:

- Any decline in EBITDA margin falling below 3% thereby impacting the profitability of the company.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Extensive experience of the promoters and management

The company is being managed by Mr. Chandrasekhar Ayachi who is the managing director of the NCPL, and he looks after the day-to-day business activity of the company. He has four decades of experience in the steel industry. Supported by experienced management of minimum 10 years in the industry and collectively they were instrumental in developing the company. Having operated in industry since years now, the management has established a strong network with suppliers and customers.

Improved operating revenue along with debt protection metrics and capital structure

The company has achieved a significant jump in the revenue as well as in quantity sold in FY23 and H1FY24. The company has seen an increase of ~24% in total operating revenue from FY22 to FY23. In the 9MFY24, the company has already achieved 76% of the projected revenue. The addition of new dealers/ distributors and higher demand from existing ones are the major reasons for this increase in revenue. Also, the interest coverage ratio and DSCR improved and stood comfortable at 2.73x and 1.86x respectively in FY23 (2.45x and 1.68x in FY22). To arrive at the tangible net worth, Infomerics has considered unsecured loans from the promoter/director amounting to Rs.50.66 crore as on March 31, 2023, as quasi equity as the same is subordinated to the bank facilities. Therefore, the overall gearing ratio of the company has remained comfortable at 0.60x in FY23 as against 0.79x in FY22. The capital structure stood comfortable with the long-term debt to equity at 0.09x in FY23 (FY22:0.17x). The TOL/TNW stands at 0.84x in FY23 (1.32 times) The overall solvency ratios have improved in the current year. The increase in the quasi equity from the directors and reduction in the total debt are major reasons for improvement in the above ratios.

Semi-integrated nature of operation of the group

The operations of the NCPL are semi-integrated with manufacturing facilities of both intermediate products like sponge iron, billets and end products like TMT bars. In-house manufacturing of sponge iron and billets are part of key raw materials for manufacturing of TMT bars which has resulted in moderate operating efficiency.

Strategic capital expenditure and its positive impact on the profitability

During FY 23-24, the company has undertaken capex for setting up 2 new Kilns for the production of sponge iron. Almost 90% of the work is done and one of the kilns have already started in March 2024 and the other one is expected to start by April 2024.

This helps to increase the production capacity of sponge iron. In turn the company will be able to use both the rolling mills (which is currently using only 1 rolling mill due to shortage of sponge iron) for the production of TMT as there would be sufficient sponge iron after installation of kilns. With this the capacity utilization will be increased from 90000MTPA to 108000 MTPA for sponge iron, and optimum capacity utilization of MT Billets and TMT Bars with an installed capacity of 180000MTPA. Already the company is having coal-based boilers which helps to generate electricity from coal waste which forms around 25% of total electricity consumption. As the usage of furnaces capacity increase, the installation of WHRB helps to generate around 50% of electricity consumption. So, around 70% of the electricity for the company is generated by its own which helps to reduce the cost and increase the profitability. The usage of the same is expected to start by mid of March 2024.

This would help to increase the operating revenue to grow at an expected CAGR of ~16% from FY23 to FY26 and the EBITDA margin is expected to increase YoY from 4.04% in FY23 to 4.81% in FY24 and 5.99% in FY26.

Long-standing relationship with dealers/ distributors

The company has well established dealers/ distributors network. There are more than 400 dealers/ distributors (directly & indirectly associated) in Gujarat and surrounding border area of Maharashtra and Rajasthan and relationship with majority of dealers/ distributors is decade old. Because of this long-standing relation “Nilkanth TMT” is having fair visibility in the market.

B. Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices

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, HMS (Heavy melting steel), iron ore pellets. While billets are the main raw material for producing TMT bars. The raw material forms major cost of the company and their prices are volatile in nature.

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 NCPL. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Highly competitive nature of Industry

The company is exposed to risks such as global steel industry performance, local regulations/duties, trade wars, etc. However, the company has been able to establish a strong presence with the quality of its products.

Analytical Approach: Standalone

Applicable Criteria:

- Default Recognition Policy
- Guidelines on What Constitutes Non-cooperation by clients
- Policy on withdrawal of rating
- Rating Methodology for Manufacturing Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Criteria of assigning Rating Outlook
- Complexity level of rated instruments facilities

Liquidity - Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient accruals. The projected gross cash accruals of the company are adequate vis-vis repayment obligation. This indicates adequate degree of liquidity of the company in meeting its obligations. The cash and bank balances stood at Rs. 1.76 crore in FY23. The average working capital utilisation for the past twelve months ended January 2024 remained high at 94%. Also, the current ratio is improved and comfortable at 1.79x in FY23 as against 1.50x in FY22.

About the Company

Nilkanth Concast Private Limited (NCPL) incorporated in 2003 is a Kutch, Gujarat based company. NCPL is engaged in the manufacturing of TMT Bars and sells it under brand name of “Nilkanth TMT” in Gujarat, Haryana, West Bengal and Rajasthan. NCPL has a backward-integrated plant with capabilities to manufacture Sponge Iron with installed capacity of 90,000 MTPA as well as MS billets with installed capacity of 1,80,000 MTPA. These are key raw material for manufacturing of TMT bars. The company has 1,80,000 MTPA of installed capacity to manufacture TMT Bars.

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	518.39	642.70
EBITDA	23.94	25.97
PAT	5.33	6.24
Total Debt	78.30	67.85
Tangible Net Worth (including Quasi Equity)	99.49	112.60
EBITDA Margin (%)	4.62	4.04
PAT Margin (%)	1.03	0.97
Overall Gearing Ratio (x)	0.79	0.60

* *Classification as per Infomerics' standards*

Details of non-co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (November 28, 2023)	Date(s) & Rating(s) assigned in 2022-23 (October 03, 2022)	Date(s) & Rating(s) assigned in 2021-22		Date(s) & Rating(s) assigned in 2020-21
							September 03, 2021	August 25, 2021	
1.	Fund Based Facility – Term Loan	Long Term	42.33	IVR BBB/ Positive	IVR BB+/ Negative, INC*/	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
2.	Fund Based Facility – Cash Credit	Long Term	43.00	IVR BBB/ Positive	IVR BB+/ Negative, INC*	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
3.	Fund Based Facility – Working Capital Limit	Long Term	14.59	IVR BBB/ Positive	IVR BB+/ Negative, INC*	IVR BBB/ Stable	IVR BBB-/ Stable	-	-
4.	Fund Based Facility - GECL	Long Term	2.69	Withdrawn	IVR BB+/ Negative, INC*	IVR BBB/ Stable	-	-	-
5.	Fund Based Facility – CC (Proposed)	Long Term	4.04	Withdrawn	IVR BB+/ Negative, INC*	IVR BBB/ Stable	IVR BBB-/ Stable	-	-
6.	Non-Fund Based Facility – BG	Short Term	7.29	IVR A3+	IVR A4+/ INC*	IVR A3+	IVR A3	IVR A3	-

*ISSUER NOT COOPERATING

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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 Facility – Term Loan	-	-	Up to April, 2031	42.33	IVR BBB/ Positive
Long Term Fund Based Facility – Cash Credit	-	-	-	43.00	IVR BBB/ Positive
Long Term Fund Based Facility – Working Capital Limit	-	-	-	14.59	IVR BBB/ Positive
Short Term Non-Fund Based Facility – BG	-	-	-	7.29	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-Nilkanth-Concast-mar24.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