Trimula Industries Limited (TIL)

April 24, 2024

Ratings:

Type of Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund based Facilities – Term Loan	95.97	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund based Facilities – Cash Credit	70.00	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facility – Proposed term loan	22.00	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook)	Assigned	Simple
Short Term Non-Fund Based Facility – Bank Guarantee	51.15	IVR A4 (IVR A Four)	Assigned	Simple
Total	**239.12 (Rupees two hundred and thirty-nine crores and twelve lakhs only)**			

Details of facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Trimula Industries Limited (TIL) derives strength from the continuous growth in the scale of operations, reversal of negative EBITDA trend, long-standing relationship with customers and experienced management.

However, the rating is constrained by modest capital structure and debt protection metrics, moderate capacity utilization, 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:

- Improvement in plant capacity utilization on a sustained basis and thereby reducing costs leading to the overall improvement in the profitability & debt protection metrics.

Downward Factor:

- Any decline in the profitability metrics with EBITDA margin falling below 8% impacting the debt protection metrics and liquidity.
- Increase in the TOL/TNW above 3x and/or elongation of gross cash conversion cycle above 120 days.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Continuous growth in the scale of operations

Total operating income of the company has improved at a CAGR of ~53% during FY20 to FY23. The company operating revenue has increased from Rs. 235.84 crores in FY22 to Rs.473.06 crores in FY23. This is due to significant increase in the sales volume in sponge iron. The company has already achieved a revenue of Rs. 353.35 crore till December 2024 which pertains to around 80% of total expected revenue in FY24.

Reversal of negative EBITDA trend:

The company has achieved the positive EBITDA margin in FY23 against the trend of negative margins up to FY22. TIL has earned EBIDTA of Rs. 54.30 crore at a margin of 11.48% in FY23 as against EBITDA and the margins ranging from Rs. -0.25 crore to Rs. -32.17 crore and -0.11% to -24.33% respectively in the period between FY20 and FY22. As of 9MFY24, the EBITDA stands at Rs.36.50 crore at a margin of 10.32%. Infomerics expects sustainability of the EBITDA margin in FY25 and beyond

Long standing relationship with customers

The company has well established relationship with the customers and majorly distributing in the states of Uttar Pradesh, Punjab, Gujarat and Rajasthan. Having operated in industry since years now, the company has established a strong relation with its customers.

Experienced management

The company is being promoted and managed by Mr. Ratan Kumar Singh who is the whole-time director of the TIL and looking after the day-to-day business activity of the company. He has almost three decades of experience in the steel industry. Having operated in industry since years now, the company has also established relationships with raw material suppliers (iron ore and coal) and customers of sponge iron and billet.

Key Rating Weaknesses

Modest capital structure and debt protection metrics

To arrive at the tangible net worth, Infomerics has considered unsecured loans from the promoter/director, as quasi equity. The capital structure is modest with the long-term debt to equity at 1.78x in FY23 (FY22:2.24x) and the overall gearing ratio of the company at 2.44x in FY23 as against 3.01x in FY22. The TOL/TNW stands at 3.69x in FY23 (4.75 times in FY22). The debt protection indicators like interest coverage ratio and DSCR stood at 1.85x and 1.45x respectively in FY23 (-0.01x and 1.41x in FY22).

Moderate capacity utilization

The capacity utilization of the sponge iron plant ranges from 32% to 41% in the period from FY20 to FY22. This constrains the company to have the advantage of economies of scale and thus increasing costs. However, the company has doubled its capacity utilization to 69.95% in FY23 which helped to increase the average utilization in the last 3 years ending FY23 to 48% for the sponge iron production plant and thereby increase in the sale quantity of sponge iron.

Susceptibility of operating margin to volatility in raw material prices

The major raw materials required for manufacturing Sponge Iron are coal, iron ore and Iron ore pellets. The raw material forms major cost of the company and their prices are volatile in nature. Further steel industry is also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel and iron industry players, including TIL. 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 and its long-standing relationship with the customers.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning Rating Outlook

Complexity level of rated instruments facilities

Liquidity - Stretched

The liquidity of the company is expected to remain stretched as the average working capital utilisation for the past twelve months ended February 2024 remained high at 98.07%. Also, the current ratio is lower than unity at 0.81x in FY23 (0.80x in FY22) and the free cash and bank balances stood at Rs. 0.44 crore in FY23. However, the projected gross cash accruals of the company seem adequate vis-vis repayment obligation and the operating cycle is comfortable at 41 days in FY23.

About the Company

TIL was incorporated in 1996 in Varanasi, Uttar Pradesh. The company manufactures sponge iron and billets at its manufacturing unit in Singrauli, Madhya Pradesh. It has an installed capacity of 2,10,000 tonnes per annum of sponge iron and 99,000 tonnes per annum of billets and a captive power plant with a capacity of 38.5 MW.

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	235.84	473.06
EBITDA	-0.25	54.30
PAT	16.23	9.46
Total Debt	278.03	261.38
Tangible Net Worth	92.41	107.10
EBITDA Margin (%)	-0.11	11.48
PAT Margin (%)	5.29	2.00
Overall Gearing Ratio (x)	3.01	2.44

* *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 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan	Long Term	95.97	IVR BB-/ Stable	-	-	-
2.	Cash Credit	Long Term	70.00	IVR BB-/ Stable	-	-	-
3.	Proposed term loan	Long Term	22.00	IVR BB-/ Stable	-	-	-
4.	Bank Guarantee	Short Term	51.15	IVR A4	-	-	-

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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.

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

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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
Term Loan	-	-	Up to June, 2032	95.97	IVR BB-/ Stable
Cash credit	-	-	-	70.00	IVR BB-/ Stable
Proposed term loan	-	-	-	22.00	IVR BB-/ Stable
Bank Guarantee	-	-	-	51.15	IVR A4

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

Annexure 3: Facility wise lender details

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