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Hindupur Steel & Alloys Pvt Ltd

August 24, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Bank Facilities	57.75	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Assigned
	Total	57.75 (Rupees fifty seven crores and seventy five lakhs only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of Hindupur Steel & Alloys Private Limited (HSAPL) consider the common management team and operational & financial linkages between HSAPL and its group concerns, M R Enterprises and Niros Ispat Private Limited. Infomerics has taken a consolidated view of these entities referred together as Niros group. The rating derive comfort from established track record and longstanding experience of the promoters, infusion of unsecured loan by the promoters to support the operations, locational advantage and integrated nature of the steel plant along with coal linkage with South Eastern Coalfield Ltd (SECL). The rating also factors in above average financial performance of Niros group marked by healthy improvement in its total operating income, moderate profitability, comfortable capital structure and adequate debt protection metrics. However, these rating strengths remain constrained due to its exposure to intense competition, susceptibility of margins to fluctuations in raw material prices, working capital intensive nature of operation and exposure to cyclicity in the steel industry.

Key Rating Sensitivities

Upward Factors:

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity



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- Improvement in capital structure and debt protection metrics with overall gearing ratio to remain below 1.0x on sustained basis

Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Established track record and longstanding experience of the promoters**

Niros group has an established operational track record in the steel industry. Over the years, the company had established healthy relationship with its customers and suppliers. Niros Ispat Pvt Ltd is managed by experienced directors namely Mr. Anil Kumar Agrawal and Mr. Siddeshwar Prasad Agrawal, who have an established track record of more than two decades in Iron & steel industry. Hindupur Steel & Alloys Pvt Ltd is managed by Mr Ganesh Kumar Agrawal (Brother of Mr Anil Agrawal) and Mr Nitin Agrawal. Over the years, the promoters through their extensive expertise have grown its business multi folds. Further to increase its presence in Iron & Steel sector the group has floated MR Enterprises into manufacturing of Billets & TMT. Mr. Nirman Agarwal and Mr Tushar Agarwal (Sons of Mr Anil Agarwal) are the partners in the firm. Therefore the whole group is managed by the Agrawal family of Chhattisgarh. All of them together looks after the overall functioning of the group.

- **Infusion of unsecured loan**

The Promoters and their relatives have infused unsecured loans on a regular basis to provide financial support to the company. The unsecured loans, are subordinated to the bank lines, stood at Rs.101.43 Crore as on March 31, 2021.

- **Integrated steel plant and coal linkage with SECL**

The group as a whole is a fully integrated steel unit, i.e the group manufactures all the products in the steel chain - Sponge Iron, Billets, Captive power plant and rolled & flat products which enables the company to withstand the cyclical nature of the steel industry as well as enable



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the company to achieve higher profitability margins. The group has an 8MW WHRB captive power plant which helps in substantial savings in the power cost and thus gives a competitive edge to the company. Moreover, the integrated nature of operations supports operating efficiencies and aids in weathering the cyclicity in the steel industry.

Moreover, the company has linkages with South Eastern Coalfields Ltd (SECL) for the supply of Coal and with NMDC for the supply of Iron ores which offers advantages in terms of price and also ensures uninterrupted supply of coal & Iron ores which are critical raw materials in the steel industry.

- **Locational Advantage**

The plants of Niros Ispat Pvt Ltd & M R Enterprises are located in the industrial area of Bhilai, Chhattisgarh, which is in close proximity to various steel plants and sources of raw materials (coal, iron ore, sponge iron etc). Further the plants are well connected through road & rail transport which facilitates easy transportation of raw materials & finished goods. Proximity of the plants to the source of raw material and the end market results in controlled transportation cost. The plant of Hindupur Steel & Alloys Pvt Ltd is located at Gollapuram Village in Andhra Pradesh. HSAPL mainly caters to the southern part of India (especially Karnataka & Andhra Pradesh), this helps the group to diversify its revenue streams and minimize the geographical concentration risk.

- **Above Average financial performance marked by healthy improvement in total operating income, moderate profitability, comfortable capital structure and debt protection metrics**

The group's total operating income witnessed an erratic trend over the last three years; it declined in FY20 by 6.67% to Rs. 865.72 crore from Rs.927.95 crore in FY19. This decline in turnover is due to lower sales realization of its manufactured products. It further improved by 41.85% y-o-y in FY21 provisional to Rs.1231.83 crore with better realisation. The EBITDA margin of the group remained comfortable in the vicinity of 3.94%-4.84% during FY18-21. However, the combined EBITDA margin improved in FY21 to 4.84% from 4.68% in FY20 due to better management of overhead expenses. PAT margin moved in line with EBITDA margin and improved to 1.30% in FY21 from 0.76% in FY20. The group also has a comfortable capital structure on the back of its satisfactory net worth base of Rs.221.94 crore as on March 31, 2021 (including subordinated USL of Rs.101.43 crore). The overall gearing ratio of the group remains comfortable and stood at 0.85x as on Mar.31, 2021 vis-a-vis 1.02x as on March 31,



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2020. The improvement in gearing is on account of accretion of profit to reserves. Debt protection parameters marked by interest coverage ratio and Total Debt to GCA also remained comfortable at 2.51x and 5.94 years in FY21 provisional as compared to interest coverage of 2.04x and Total debt to GCA of 7.40 years in FY20.

B. Key Rating Weaknesses

- **Exposure to intense competition**

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, the group also faces competition from the organized sector players.

- **Susceptibility of margins to fluctuations in raw material prices**

The prices of the key raw material i.e, Iron ore, have shown a volatile trend over the years and are determined by market forces. Raw material cost is a major contributor to its total operating cost, thereby making profitability sensitive to raw material prices. Further, the major raw material price of the group is prone to witnesses frequent price fluctuations. Thus, any adverse change in the prices of the raw material may affect the profitability margins of the group.

- **Working capital intensive nature of operation**

The operation of the group is working capital intensive in nature. The group is required to maintain adequate inventory of raw material for smooth production process as well as maintain inventory of finished goods to meet demand of its customers which resulted in average inventory period of 43 days for FY21 as compared to 44 days in FY20. Furthermore, the group offers a credit period of around 30 to 40 to its customers owing to its presence in highly competitive industry resulting in average collection period of 30 days in FY21. However, it receives a credit period of 25-30 days from its suppliers. The operating cycle of the group stood at 47 days in FY21 (provisional) as compared to 39 days in FY20.

- **Exposure to cyclicity in the steel industry**

The steel industry is sensitive to the shifting business cycles including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Analytical Approach:

For arriving at the rating, Infomerics has combined the financial risk profiles of Nirox Ispat Pvt Ltd, Hindupur Steel & Alloys Pvt Ltd and M R Enterprises as these entities run under a



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common management, have strong operational and financial linkages and cash flow fungibility. Further, all the three entities are in steel manufacturing industries. All the three companies combined referred as Niros group hereafter. (List of companies considered for consolidated analysis is given below in **Annexure 3**)

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity Position: Strong

The group had generated healthy cash accrual of around Rs.31.86 Cr in FY21 (Prov.) as against repayment obligation of around Rs. 10.44 crore. Further, the group is also expected to generate steady cash accrual of Rs. 45.22 crore to Rs. 66.60 crore over the near medium term against its repayment obligation of Rs.12.23 crore to Rs.15.37 crore in FY22-24. Moreover, the group has adequate gearing headroom on the back of its strong capital structure.

About the company and the Group

Incorporated in 2001, Niros Ispat Pvt Ltd is a Bhilai-based company promoted by Agrawal family of Chhatisgarh. The company, which is an integrated unit is engaged in unit, manufacturing of Sponge Iron, MS Billets and MS Structurals. The operations of the company are managed by Mr. Anil Kumar Agrawal and Mr. Siddheshwar Prasad Agrawal. The finished goods are sold under the brand BLUE LINES, which has a strong brand recall value.

Incorporated in 2009, Hindupur Steel & Alloys Pvt Ltd is an Anantapur (Andhra Pradesh) based company managed by Mr. Ganesh Kumar Agrawal and Mr. Nitin Agrawal. The company is engaged in manufacturing of Billets and TMT bars. HSAPL have been a leading player in manufacturing of TMT Bars of "KAMDHENU" Brand for nearly 10 years.

MR Enterprises was incorporated by the Agarwal family in the year 2019 to take over the assets of Maheshwari steels in a slump sale. The firm started its commercial production in November '19.

Financials (Combined)

For the year ended* / As On	(Rs. crore)	
	31-03-2020	31-03-2021
	Combined	Combined



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For the year ended* / As On	31-03-2020	31-03-2021
Total Operating Income	865.72	1231.83
EBITDA	40.47	59.62
PAT	6.61	16.03
Total Debt	165.89	189.14
Tangible Net worth	162.42	221.94
EBITDA Margin (%)	4.68	4.84
PAT Margin (%)	0.76	1.30
Overall Gearing Ratio (x)	1.02	0.85

*Classification as per Infomerics' standards.

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	429.75	591.65
EBITDA	13.63	22.02
PAT	3.84	4.49
Total Debt	71.05	85.05
Tangible Net worth	54.37	97.63
EBITDA Margin (%)	3.17	3.72
PAT Margin (%)	0.89	0.76
Overall Gearing Ratio (x)	1.31	0.87

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating s	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	50.00	IVR BBB+; Stable	-	-	-
2.	Term Loan	Long Term	7.75	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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Cash Credit	-	-	-	50.00	IVR BBB+; Stable
Term Loan	-	-	June 2026	7.75	IVR BBB+; Stable
Total				57.75	

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Hindpur-steel-lenders-24aug21.pdf>

Annexure 3: List of companies considered for consolidated analysis is given below,

Name of the Company	Consolidation Approach
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Niros Ispat Private Limited	Full consolidation
Hindupur Steel and Alloys Private Limited	Full consolidation
M R Enterprises	Full consolidation

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.	Term Loan	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.