Press Release

M/s. Ispat India

December 16, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	24.00	IVR BBB+ / Stable Outlook (IVR Triple B plus with Stable Outlook)	Reaffirmed
Long Term Bank Facilities – Term Loan	2.33 * (reduced from Rs.4.26 crore)	IVR BBB+ / Stable Outlook (IVR Triple B plus with Stable Outlook)	Reaffirmed
Total	**26.33**		

**outstanding as on September 30, 2020*

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of M/s Ispat India (II) continues to derive comfort from the parentage of the Agrasen group and strong support from group synergy, locational advantage of the plant with group's semi-integrated operations, agreement with Kamdhenu Limited (KL) along with established relationship of the Agrasen Group with KL. The ratings also continue to consider comfortable capital structure of the group albeit moderation in the debt protection metrics in FY20. However, these rating strengths are constrained due to volatility in raw material prices, highly competitive & fragmented nature of the industry and cyclicality in the steel industry. The ratings also note moderation in its financial performance in FY20 with contraction in its total operating income and profitability mainly due to sharp fall in average sales realisation of steel products during the fiscal.

Key Rating Sensitivities:

Upward factors

- Growth in scale of operation with continuance of agreement with KL and improvement in profitability with EBITDA margin over 6%
- Improvement in the capital structure and/or improvement in the debt protection metrics
- Efficient working capital management with improvement in its average cash credit utilisation to below 90% on a sustained basis

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.
- Deterioration in the capital structure with moderation in the overall gearing to more than 1.00x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Parentage of the Agrasen group and strong support from group synergy

The Agrasen group is founded by the Agrawal family of Raipur, Chhattisgarh. The group has vast experience in the steel and steel products manufacturing and trading segment through various companies under its fold. The Agrawal family started their business operations with trading of steel products and gradually ventured in manufacturing operations in 2002 and consequently have more than one and half decades of experience in manufacturing of steel products. Currently, the Agrasen group has two business verticals – Trading and Manufacturing. Under manufacturing vertical, the group is engaged in manufacturing of steel wires, Ms Ingot, billets and steel rolled products. Under trading vertical the group is engaged in trading of various steel products. Further, the trading companies of the Agrasen Group, are empaneled vendors of large companies and supplies varied grades of iron and steel products. The Agrawal family took over II in 2016 and has shown positive commitments with fund infusion to revive the operations.

Locational advantage

The manufacturing facility of M/s Ispat India and other group entities namely, Agrawal Channel Mills Private Limited (ACMPL), Devi Iron & Power Private Limited (DIPPL), Hindustan Coils Limited (HCL), Mahamaya Spong Iron Private Limited (MSIPL) and M/s. Om Sponge (OS) is located in Raipur, Chhattisgarh which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron and iron scrap, the main raw materials for manufacturing of its products. Accordingly, availability and sourcing of raw materials is not an issue.

Semi-integrated nature of operation of the group

The operations of the Agrasen group are semi-integrated with manufacturing facilities of both intermediate products like sponge iron, billets and end products like TMT bars, wires, structural, coils, tubes. Further, around 70-75% of sponge iron produced by DIPPL is procured by ACMPL, HCL and II. Moreover, under DIPPL, the group has access to an iron ore mine with around 8-10 crore tonnes reserve spread over an area of about 400 Hectare. However, the mining operation is expected to start soon and pending for regulatory clearances.

Agreement with Kamdhenu Limited (KL) along with established relationship of the Agrasen Group with KL

The Agrasen group has an established relationship with KL, as the group is also manufacturing MS Angle, channels in Agrawal Channel Mills Pvt. Ltd and steel wires in Hindusthan Coils Ltd under the brand "Kamdhenu" under respective franchise agreements with KL. Besides, under M/s Ispat India the group has entered into a licensee agreement (last renewed on April 1,2019) with KL to market its products under the brand name of "Kamdhenu". The use of the established 'Kamdhenu' brand helps the firm to effectively market its products. In view of its established relationship with KL, the risk of non-renewal of contract is less.

Established marketing arrangements

KL has 75 units under its brand with a network consisting of more than 11,500 dealers and distributors as on March 31, 2020. Further, the Agrasen group has its own established marketing arrangements with various steel products dealers on the back of its more than a decade long operation in the steel trading/manufacturing segment. The use of in-place marketing arrangements of KL and the Agrasen group provide business advantage to the firm and to the group as a whole.

Comfortable capital structure, albeit moderation in debt protection parameters of the Group in FY20

The financial risk profile of the Agrasen group remained comfortable marked by its satisfactory capital structure and healthy debt protection parameters. The overall gearing ratio of the group has improved from 0.67x as on March 31, 2019 to 0.64x as on March 31,2020 and remained comfortable (considering the subordinated unsecured loans from Directors and relatives as a part of adjusted net worth). The debt protection metrics though moderated, yet remained comfortable in FY20 with interest coverage ratio at 2.80x (5.40x in FY19) and Total debt to GCA at 4.98x (2.62x in FY19) due to decline in overall profitability and margin in FY20. Total indebtedness of the group also continued to remain comfortable as reflected by TOL/ANW of 1.13x as on March 31, 2020.

On a standalone basis, the overall gearing ratio (excluding subordinated debt) of II improved from 1.07x as on March 31, 2019 to 0.81x as on March 31,2020 driven by scheduled repayment of term debts and accretion of profit to net worth. Further, the interest coverage ratio remained healthy at 3.06x in FY20 (5.93x in FY19). Total indebtedness as indicated by TOL/ANW remained satisfactory at 1.02x as on March 31,2020.

Key Rating Weaknesses

Decline in top line and profit margins of the Group in FY20

The combined total operating income of the Agrasen Group declined from Rs.1349.76 crore in FY19 to Rs.1112.50 crore in FY20 mainly due to slowdown in the steel industry leading to decline in volume sales as well as decline in average sales realization of steel products at the same/similar level of production. Further, the decline in sales during the month of March, 2020 due to the outbreak of COVID-19 pandemic also fueled the deterioration in the top line of the group. With decline in the total operating income of the group, the EBITDA also reduced to Rs.53.36 crore in FY20 as compared to Rs.79.70 crore in FY19 resulting in decline in EBITDA margin from 5.91% in FY19 to 4.80% in FY20. The decline in EBITDA was also attributable to the fact that the decline in the steel prices during March, 2020 led to decline in the valuation of closing stock, the volumes of which was high since the company had stocked up its finished products along with iron ore and coal, its primary raw materials anticipating a slowdown in the availability of same due to the outbreak of COVID 19 pandemic. Decline in EBITDA and EBITDA margin also led to decline in PBT and PAT margin from 3.52% and 2.56% respectively in FY19 to 1.53% and 1.23% respectively in FY20. Combined GCA also declined from Rs.59.71 crore in FY19 to Rs.33.30 crore in FY20. During H1FY21, the group achieved a turnover of Rs.713.59 crore with PBT of Rs.19.58 crore. Further, with rising trend in steel prices, the group is expecting a healthy profit in the current fiscal (i.e., FY21).

On a standalone basis, the total operating income of II also declined from Rs.317.09 crore in FY19 to Rs.270.60 crore in FY20. The EBITDA margin also declined from 5.01% in FY19 to 3.96% in FY20. During H1FY21, the firm achieved a top line of Rs.149.97 crore with PBT of Rs.4.38 crore.

Volatile input prices

The cost of raw materials (i.e., sponge iron, pig iron and scrap) is the largest component of total cost of sales of steel products. Given that the prices of raw-materials are volatile in nature, the group's profitability is susceptible to fluctuation in raw-material prices. However, the

Agrasen group had acquired controlling stake in DIPPL in FY17 which has a sponge iron manufacturing capacity of 90000MTPA. Further, the group has acquired MSIPL and OS having a sponge iron manufacturing capacity of 30000 MTPA each during FY19 which will also expected to support its overall sponge iron requirement and boost its profitability going forward.

Highly competitive & fragmented nature of industry

The spectrum of the steel industry in which the group operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

Cyclicality in Steel Industry

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on the group's performance in view of its direct linkage to the fortunes of Steel industry. However, the outlook for the steel industry in the short to medium term appears to be good as the steel prices have hardened in the recent past, coupled with robust demand in the domestic market.

Analytical Approach: Combined Approach

For arriving at the ratings, INFOMERICS analytical team has combined the financials of M/s Ispat India, Agrawal Channel Mills Private Limited, Devi Iron & Power Private Limited, Hindustan Coils Limited, Mahamaya Sponge Iron Private Limited and M/s Om Sponge referred as Agrasen Group as these companies are closely held entities with significant ownership & control by common promoter family and have strong operational and financial linkages. The list of companies is given in **Annexure 2.**

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the Agrasen group is expected to remain adequate characterized by sufficient cushion in its cash accruals vis-à-vis repayment obligations. Further, the group has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The overall gearing of the group also remained comfortable at 0.64x as on March 31, 2020 indicating sufficient gearing headroom. However, the average cash credit utilization of the group remained on the higher side at ~91% for the past twelve months ended September, 2020 indicating a limited liquidity buffer.

About the Firm

M/s. Ispat India, a partnership firm, controlled by Raipur (Chhattisgarh) based the Agrasen group is engaged in manufacturing of MS Billet (Capacity: 120000MTPA), MS Strips (Capacity: 90000 MTPA) and MS Tube (Capacity: 40000 MTPA). MS Ingots/Billets and strips are mainly used for captive consumption to produce rolled products (MS pipes/Tubes). The manufacturing facility of the firm is located in Raipur. Presently, the firm is governed by the partnership deed dated April 1, 2019 with Mr. Yogesh Kumar Gupta, Mr. Narendra Gupta, Mr. Navnet Gupta, Mr. Sahil Singla, Mr. Kushan Garg, Mr. Nand Kishore Agrawal, Mrs. Gayatri Agrawal, Mrs. Suman Devi Agrawal, Mrs. Pratibha Agrawal, M/s. Jai Ambey Indocem Pvt. Ltd, Mr. Vinod Kumar Singla and Mr. Tarun Kumar Gupta as partners. The Agrasen Group was established by, Raipur based, Agrawal family and its relatives. The group is mainly engaged into manufacturing of Ms Ingot, Billets and steel rolled products and trading of various steel products through various companies under its fold.

About the Group

The Agrasen group is founded by the Agrawal family of Raipur, Chhattisgarh. The group has vast experience in the manufacturing and trading of steel products through various companies under its fold. The Agrawal family started their business operations with trading of steel products and gradually ventured in manufacturing operations in 2002. Currently, the Agrasen group has two business verticals – Trading and Manufacturing. Under manufacturing vertical, the group is engaged in manufacturing of steel wires, Ms. Ingot, Billets and steel rolled products. Under trading vertical the group is engaged in trading of various steel products.

Financials (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	1349.76	1112.50
Total Income	1352.79	1115.14
EBITDA	79.70	53.36
PAT	32.25	11.73

For the year ended* / As On	31-03-2019	31-03-2020
Total Debt	156.46	165.92
Adjusted Net worth	233.15	260.55
EBITDA Margin (%)	5.91	4.80
PAT Margin (%)	2.56	1.23
Overall Gearing Ratio (x)	0.67	0.64

**As per Infomerics' Standard*

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	**Audited**
Total Operating Income	317.09	270.60
Total Income	317.85	271.24
EBITDA	15.88	10.70
PAT	6.33	2.04
Total Debt	29.23	31.44
Adjusted Net worth	27.22	38.87
EBITDA Margin (%)	5.01	3.96
PAT Margin (%)	2.28	1.34
Overall Gearing Ratio (x)	1.07	0.81

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

CARE Ratings has moved the rating of II into the Issuer Non-Cooperating category as the firm did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated July 01, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**		**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Cash Credit	Long Term	24.00	IVR BBB+ / Stable Outlook	IVR BBB+ / Stable Outlook (September 18, 2019)	IVR BBB+ / Stable Outlook (August 05, 2019)	-	IVR BBB- / Stable Outlook (March 27, 2018)
2.	Term Loan	Long Term	2.33 * (reduced from Rs.4.26 crore)	IVR BBB+ / Stable Outlook	IVR BBB+ / Stable Outlook	IVR BBB+ / Stable Outlook	-	IVR BBB- / Stable Outlook

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20		Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
					(September 18, 2019)	(August 05, 2019)		(March 27, 2018)

**outstanding as on September 30, 2020*

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.

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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.

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 Bank Facilities – Cash Credit	-	-	-	24.00	IVR BBB+ / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	May, 2024	2.33 * (reduced from Rs.4.26 crore)	IVR BBB+ / Stable Outlook

**outstanding as on September 30, 2020*

Annexure 2: List of companies/entities considered for consolidated analysis

Name of the Company /Entity	Consolidation Approach
M/s Ispat India (II)	Full consolidation
Hindustan Coils Limited (HCL)	Full consolidation
Devi Iron & Power Private Limited (DIPPL)	Full consolidation
Agrawal Channel Mills Private Limited (ACMPL)	Full consolidation
Mahamaya Sponge Iron Private Limited (MSIPL)	Full consolidation
M/s Om Sponge	Full consolidation

Annexure II: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Lenders-16-12-20.pdf