Press Release

Maharaja Ispat Private Limited

August 11, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	71.45 (reduced from 74.11)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	16.00	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**87.45**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Maharaja Ispat Pvt Ltd (MIPL) continues to derive comfort from its experienced promoter with long track record, commencement of repairing of LPG Cylinders and HR sheet cutting, strategic location of plant, growth in scale of operations albeit moderation in profitability and comfortable capital structure with adequate debt protection metrics. These rating strengths are partially offset by susceptibility of profitability to volatility in the prices of raw materials and finished goods, exposure to geographical concentration risk and working capital intensive nature of operation.

Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics.
- Improvement in capital structure with improvement in overall gearing to below unity
- Improvement in receivable period and improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators
- Elongation in receivable period impacting the liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter with long track record

MIPL was promoted by Mr. Navneet Kumar Agarwal in the year 2006. Mr. Agarwal has around 20 years of experience in the iron and steel industry. He also heads an associate firm, namely, M/s Maharaja, which is in manufacturing of coke for over 15 years. MIPL starts operation from 2006, thus having about two decades of operational track record. Over the years of its operation, the company has shown steady growth in trading of coke, in the eastern region. Currently, Mr. Agarwal (Director) is at the helm of affairs of the company.

Commencement of repairing of LPG Cylinders and HR sheet cutting

The company has received licence for repairing of LPG cylinders. This would lead to higher revenues. The GOI has come up with a policy, where LPG cylinders needs to be repaired and tested every 5 years, and a cylinder can go through the process of repairing just once, which increases the potential market for MIPL. This apart, during FY21, the company has started cutting and moulding of HR sheet sheets in various shapes and uses for third party. The cutting and moulding are in the form of GP Sheets, GP Shutter, MS Pipe Ring, MS Shutter, ERW Pipe/Tube, GP Shutter guide, MS Shutter guide etc.

Strategic location of plant

The manufacturing facility of MIPL is located in Durgapur, West Bengal, within close vicinity from the top two bottling plants in the eastern region namely Hindustan Petroleum and Indian Oil bottling plants, which will help them save cost in the long run. Further, the plant is very well connected with other nearby places through roadways. Also, the company is planning to expand its facility by little moderations to its plants through which they can manufacture valves which they are procuring from third party currently. Further, MIPL has also received the licence for repairing of gas cylinders which has a potential market which would benefit the company in long run as margins are higher in the repairing segment.

Growth in scale of operations albeit moderation in profitability

The company has registered a CAGR of ~44% with a y-o-y growth of ~3% in FY23 to ~Rs.268 crore. The growth was on the back of higher demand of manufactured products coupled with increase in trading sale of coal and iron & steel, as the company was able to obtain better realisation with the increase in coal price in H1FY23 and there was excess procurement of raw materials (HR coil) from SAIL. However, during FY23, operating profit has declined on account of higher procurement cost of raw material (HR Coil) and fall in average realisation due to fall in steel price in since Q2FY23. PAT also declined in line with EBITDA.

Comfortable capital structure with adequate debt protection metrics

The capital structure of MIPL has further improved as on March 31, 2023, on the back of repayment of term loan along with accretion of profit to reserve and infusion of capital in the form of equity (net off Rs.8.55 crore). Debt equity ratio and Overall gearing ratio was 0.22x and 1.07x respectively (improved from 0.83x and 2.56x respectively as on March 31, 2022) as on March 31, 2023. However, the debt profile of the company includes unsecured loan from the promoters (Unsubordinated) aggregating to Rs.2.69 crore which is to be remained in the business as indicated by the management. Considering the same as a part of net worth, the overall gearing stood at 0.96x as on March 31,2023. Debt protection parameters of the company continued to remain healthy marked by interest coverage ratio at 2.48x in FY22 and Total debt to EBITDA at 5.56x as on March 31,2023.

Key Rating Weaknesses

Susceptibility of profitability to volatility in the prices of raw materials and finished goods

The price of steel has seen a lot of volatility over the last three years. The price of HR coil, which is one of the main raw materials required for MIPL, has witnessed volatility in the recent past. Similarly, the price realisation for LPG Cylinders are also linked to the input prices, where there could be squeezing of margin when the input cost increase is not fully absorbed in the selling prices.

Exposure to geographical concentration risk

MIPL mainly caters to the state of West Bengal and plans to service the eastern region. Though there are less number of cylinder and lancing tube manufacturer in the country, the company is likely to face lesser demand in the urban markets with introduction of pipeline gas. Hence, the company is exposed to geographical concentration risk. However, the company has begun efforts to strengthen its brand presence and grow its sales in other states.

Working capital intensive nature of operation

The operation of the MIPL is working capital intensive as the company needs to procure its main raw materials i.e. HR Coil and Sheet mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to high competition in the industry. Besides, it also needs to maintain semi-finished inventory (mainly cylinders) for faster supply to the OMCs. The operating cycle of MIPL elongated to 93 days in FY23 owing to both, elongation of collection period (40 days in FY23 from 28 days in FY22) and high inventory days (60 days from 4 days). The company had obtained low credit period to obtain better pricing, reflected in the average creditor days (7 in FY23). The average utilisation of its working capital limit of MIPL, though remained moderate at about 51% during the past 12 months ended on June, 2023.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria for assigning rating outlook

Liquidity: Adequate

MIPL has earned a gross cash accrual of ~Rs.4.8 crore in FY23. Further the company is expected to earn a gross cash accrual in the range of ~Rs.6-9 crore as against its debt repayment obligations around ~Rs.2 crore per year during FY24-26. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, average cash credit utilisation of the company remained low at ~51% during the past 12 months ended June 2023 indicating a sufficient liquidity cushion.

About the Company

Incorporated in April 25, 2006, Durgapur based Maharaja Ispat Pvt Ltd (MIPL) was promoted by one Mr. Navneet Kumar Agarwal. MIPL, since inception, was engaged in trading of coke and coal. However, they began setting up a manufacturing unit for production of LPG cylinders and lancing tubes in the year 2017. The plant started its operations from January, 2018 as planned. The manufacturing facility of the company is located at Durgapur with an installed capacity of 30,000 MTPA for Lancing Tubes and ~5,12,000 LPG Cylinders per year. MIPL has obtained licence for production of LPG Cylinders from Bureau of Indian Standards in June 2018. Also, MIPL has started repairing of cylinders as another business segment due to the increasing demand. As per regulatory requirements, every cylinder has to be repaired after five years of usage, which would add to the profitability in the coming years also. This apart, the company has installed Cut to Length (CTL) machine for related job work for nearby industries and also initiated a Shutter profile production setup since FY22. Currently, Mr. Navneet Kumar Agarwal (Director), looks after day-to-day affairs of the company along with other director and a team of experienced personnel.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Income	260.88	268.12
EBITDA	12.78	9.71
PAT	5.16	3.29
Total Debt	63.70	54.04
Tangible Net worth	38.76	50.60
EBITDA Margin (%)	4.90	3.63
PAT Margin (%)	1.98	1.23
Overall Gearing Ratio (x)- Adjusted	1.34	0.96

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (July 8, 2022)	Date(s) & Rating(s) assigned in 2021-22 (September 7, 2021)	Date(s) & Rating(s) assigned in 2020-21 (March 31, 2021)
1	Term loan	Long Term	2.94	IVR BBB / Stable	IVR BBB / Stable	IVR BBB- / Stable	IVR BBB- / Stable
2	Cash Credit	Long Term	50.00	IVR BBB / Stable	IVR BBB / Stable	IVR BBB- / Stable	IVR BBB- / Stable
3	GECL	Long Term	0.61	IVR BBB / Stable	IVR BBB / Stable	IVR BBB- / Stable	IVR BBB- / Stable
4	GECL Extension	Long Term	4.30	IVR BBB / Stable	IVR BBB / Stable	-	-
5	GECF/ CECF	Long Term	-	-	Withdrawn	IVR BBB- / Stable	IVR BBB- / Stable
6	Channel Finance	Long Term	13.60	IVR BBB / Stable	IVR BBB / Stable	IVR BBB- / Stable	-
7	BG	Short Term	16.00	IVR A3+	IVR A3+	IVR A3	IVR A3

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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).

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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
Cash Credit	-	-	-	50.00	IVR BBB / Stable
GECL	-	-	July, 2024	0.61	IVR BBB / Stable
Term Loan	-	-	Mar 2029	2.94	IVR BBB / Stable
GECL Extension	-	-	Dec 2026	4.30	IVR BBB / Stable
Channel Finance 1	-	-	-	10.00	IVR BBB / Stable
Channel Finance 2	-	-	-	3.60	IVR BBB / Stable
Bank Guarantee	-	-	-	16.00	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/le-mi-aug23.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.