Maharaja Ispat Pvt Ltd

March 31, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	30.97 (enhanced from 18.77)	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Revised from IVR BB+; Positive (IVR Double B Plus with Positive Outlook)
2.	Short-term Bank Facilities	15.00 (enhanced from 6.23)	IVR A3 (IVR A Three)	Revised from IVR A4+ (IVR A Four Plus)
	Total	**45.97 (Rs. Forty-Five crore and Ninety-Seven lakh only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Maharaja Ispat Pvt Ltd (MIPL) takes into account improvement in its scale of operation with improvement in profitability during FY20 and in 11MFY21. Further, the aforesaid ratings continue to drive comfort from its experienced promoter, strategic location of plant and satisfactory capital structure with satisfactory debt-protection metrics. However, these rating strengths are continues to remain constrained by its short track record in manufacturing operations, susceptibility of profitability to volatility in the prices of raw materials and finished goods and exposure to geographical concentration risk. The ratings also consider expected moderation in its capital structure and debt protection metrics though expected to remain satisfactory.

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
- 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
- Withdrawal of unsecured loans from the promoters and/or moderation in overall gearing to more than 2x times and interest coverage to below 2x

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter

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. Mr. Agarwal heads the partnership firm Maharaja which is manufacturing coke for over 15 years. 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 HR sheet cutting operations

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 license 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 in FY20 and in 11MFY21

The company's topline has exhibited growing trend during FY18-FY20. The company has registered a CAGR of ~69% with a y-o-y growth of ~19% in FY20. This is due to increased capacity utilization in the Cylinder and pipe segments coupled with introduction of cylinder repairing works. The profitability of the company remained thin, however exhibiting increasing trends with EBITDA margin of 4.61% in FY20 from 1.97% in FY18. The growth in EBIDTA margin was due to increase in cylinder segment where profitability is better than that of lancing tube. However, PAT margin remained range bound and thin. Furthermore, during 11MFY21 the company has already earned ~Rs.156 crore mainly on the back of increase in product sales coupled with increase in cylinder repairing work and revenue from newly initiated steel sheet cutting & moulding works in various shapes and types.

Satisfactory capital structure and satisfactory debt-protection metrics though moderation expected in the near-term

The overall gearing ratio remained comfortable at 0.89x with considering unsubordinated unsecured loan from group company amounting Rs.7.91 crore as neither debt nor equity as on March 31, 2020. Though the capital structure of MIPL has deteriorated as on March 31, 2020 on account of higher utilisation of bank borrowing to fund the working capital needs in the escalated scale of operation coupled with availment of unsecured loan from its sister concern, M/s Parashmani (an investment company - with no operation) continued to remain satisfactory. The debt protection parameters marked by interest coverage ratio and DSCR remained healthy over the past few years. However, though the debt protection metrics will continue to remain satisfactory, Infomerics expects further moderation in the capital structure in the near term with enhanced bank borrowings to fund the escalated scale of operations.

Key Rating Weaknesses

Short track record in manufacturing operation

MIPL has recently ventured into manufacturing of LPG cylinder and Lancing tubes, earlier for 12 years they were a trading in coke. They have been operating the manufacturing facility for the past one and a half years only.

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 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.

Geographical concentration risk

MIPL mainly caters to the state of West Bengal and plans to service the eastern region. 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.

Threat of alternative product

MIPL mainly operates in the State of West Bengal. 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. However, with the Government of India's (GOI) Ujjwala scheme, the demand in the rural industry will keep increasing, thus mitigating the risk for demand of LPG Cylinders. Also, lancing tubes has a high demand in the eastern region as it is required in all the furnace-based plants and there are few competitors for lancing tubes in the Burdwan district of West Bengal.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile of MIPL is expected to remain adequate marked by its expected satisfactory cash accruals vis a- vis its debt repayment obligations in FY21. Further, the company has no planned capex or availment of further long-term debt, which imparts comfort. During last 12 months ending on January 2021, average utilisation of bank borrowing was around ~76% indicating an adequate liquidity buffer. However, the liquidity profile is restricted due to its working capital-intensive nature of operations.

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 facility's commercial operations date (COD) was in January 18, and 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 12000 MTPA for Lancing Tubes and 7650 LPG Cylinders per year. MIPL has obtained licence for production of LPG Cylinders from Bureau of Indian Standards in June 18.

Financials (Standalone): (Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	**Audited**
Total Operating Income	75.97	90.38
EBITDA	2.62	4.16
PAT	0.99	1.16
Total Debt	7.93	18.49
Tangible Net worth	19.54	20.71
EBITDA Margin (%)	3.46	4.61
PAT Margin (%)	1.30	1.29
Overall Gearing Ratio (x)	0.41	0.89*

**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 Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr)	Rating	Date(s) & Rating(s) assigned in 2019-20	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	Term loan	LT	3.42	IVR BBB- / Stable	IVR BB+ / Positive (30.01.2020)	IVR BB+; Positive (09.01.2020)	IVR BB+; Stable (06.09.2018)	-
2	Cash Credit	LT	24.20	IVR BBB- / Stable	IVR BB+ / Positive (30.01.2020)	IVR BB+; Positive (09.01.2020)	IVR BB+; Stable (06.09.2018)	-
3	GECL	LT	2.00	IVR BBB- / Stable	-	-	-	-
4	GECF	LT	1.35	IVR BBB- / Stable	-	-	-	-
5	BG	ST	15.00	IVR A3	IVR A4+ (30.01.2020)	-	-	-

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 Fund Based Limits – Term loan	-	-	March 2024	3.42	IVR BBB-/Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	24.20	IVR BBB-/Stable
Long Term Fund Based Limits – GECL	-	-	-	2.00	IVR BBB-/Stable
Long Term Fund Based Limits – GECF	-	-	-	1.35	IVR BBB-/Stable

Short Term Non-Fund Based Limits – BG	-	-	-	15.00	IVR A3

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/lender-maharaja-ispat-31-3-21.pdf