Mono Steel (India) Limited

October 09, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	52.00	IVR BBB+/ Stable (IVR Triple B plus with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	188.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**240.00 (Rs. Two hundred and forty crores only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Mono Steel (India) Limited (MSIL) continue to derive comfort from its experienced promoters, partially integrated manufacturing facility and presence of established brand with strong distribution network. The ratings also consider steady cash flows from its solar power plant, comfortable capital structure and improvement in top line in FY2023 and in Q1FY2024. However, these rating strengths continue to remain partially offset by its thin profit margins due to rise in trading activities, intense competition in its operating spectrum and exposure to foreign currency fluctuation risk. Besides, the overall profitability remains vulnerable to fluctuations in raw material and finished goods prices along with exposure to cyclicality in steel industry.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and improvement in debt protection metrics with interest coverage ratio remained over 5.00x

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators, deterioration in working capital management
- Moderation in the capital structure with increase in overall gearing to above 1.2x
- Anu unplanned capex impacting the capital structure and liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

Extensive experience of the promoters in the steel industry

MSIL's promoters have long-standing experience in the steel industry. Apart from steel industry, the promoters have business interest in various other sectors like ship breaking, oxygen plant, mining, steel & scrap trading. Presently, Mr. Jaisukhbhai Mavjibhai Shah and Mr. Bhupatbhai Mavjibhai Shah, brothers by relation both having an experience of around three decades in the steel industry are at the helm of affairs of the company.

Operational efficiency by virtue of having partially integrated manufacturing facility

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. MSIL's backward integration to produce billets to meet a part of its raw material requirement for Thermo-Mechanically Treated (TMT) bars manufacturing coupled with 12MW captive power generation capacity utilizing waste heat recovered from the sponge iron kilns, which is meeting ~60% of its power requirements. The company has further installed a wind and solar power plant of 6.3 MW and 5.4 MW capacity respectively in June 2023. Access to captive power also plays a vital role in terms of operational integration due to energy intensive nature of manufacturing and leads to cost optimisation. Moreover, the company is also in the process of installing a new furnace for manufacturing of billets with installed capacity of 50,000 MTPA. Partially integrated nature of operation provides a competitive edge over other regional re-rollers without backward integrated facilities.

Established brand and marketing arrangements

The company produces ISI marked billets and premium grade ISI marked TMT bars. Products of MSIL are approved by many governments, semi-government, and private organizations. It sells TMT bars under the brand name of 'Mono TMT'. The brand is well established in the state of Gujarat as well as in the nearby regions. Further, the company has developed a well-established marketing network with around 150-200 dealers and distributors to sell TMT bars in the state of Gujarat.

Steady cash flow from solar power plant and low counter party risk

MSIL has established a 10 MW Solar power plant under Government of Gujarat Policy -2009 in FY12. The company has entered in a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) at rate of Rs.15 per Kwh for first 12 years and Rs.5 for the remaining 13 years which provides sound revenue visibility along with low counter party risk, GUVNL being the off taker. The company has a steady revenue of ~Rs.25.65 crore in FY2023, up from Rs.14.16 crore in FY2022 from its solar power plant which is sufficient to service its debt obligations and imparts comfort to the credit risk profile of the company. The solar plant operations were affected in FY2022 due to Taukte Cyclone in May 2021. However, the same picked up from FY2023.

Financial profile characterised by conservative capital structure marked by strong net worth base leading to satisfactory gearing

The capital structure of the company remained comfortable underpinned by its strong net worth base of Rs 247.86 crore as on March 31, 2023. To arrive at the net worth, Infomerics has considered unsecured loans from promoters/ directors amounting to Rs.14.85 crore as on March 31, 2023, as quasi equity as the same is subordinated to the bank facilities. The overall gearing ratio continued to remain comfortable and stood at 0.31x as on March 31, 2023. (0.18x as on March 31, 2022, and 0.25x as on March 31, 2021). Apart from its working capital limits the company also use fixed deposit backed overdrafts to fund its working capital requirements. Moreover, total indebtedness of the company as reflected by TOL/TNW (including quasi equity) also remained comfortable at 1.31x as on March 31, 2023 (1.22x as on March 31, 2022). The debt coverage ratios also remained comfortable with ICR of 3.04x (PY:2.43x), Total debt/EBITDA of 1.90x (PY:0.95x) and Total debt/GCA of 2.11x (PY: 1.55x) in FY2023. Going forward, Infomerics believes the financial risk profile to remain healthy albeit marginal moderation in overall gearing and TOL/TNW in FY2024 consequent to disbursement of term loan for installation of wind and solar power plant and an additional furnace for manufacturing of billet.

Improvement in top line in FY2023 and in Q1FY24

TOI witnessed a y-o-y growth of ~80% from Rs.944.88 crore in FY2022 to Rs.1698.18 crore in FY2023 majorly driven by substantial increase in trading sales of scrap and iron ore. While there was a slight decrease in manufacturing sales, the same was compensated by increase in trading sales in FY2023 fiscal year. Gross cash accruals also improved from Rs.26.07 crore in FY2022 to Rs.36.85 crore in FY2023. MSIL registered a TOI of Rs.478.88 crore during Q1FY2024 (Rs.196.83 crore during Q1FY2023) with PBT of Rs.10.88 crore (Rs.4.07 crore during Q1FY2023). The company's ability to sustain the growth in its top line without compromise in margins will be a key rating monitorable going forward.

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices and finished goods

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw materials required for manufacturing billets are coal, iron ore and sponge iron while billets are the main raw material for producing TMT bars. MSIL uses both sponge iron and billets as captive consumption for manufacturing of billets and TMT bars respectively. However, it does not have any backward integration for its basic raw materials (iron ore & coal) and has to purchase the same from open market. MSIL mostly procure imported coal from local importers. Moreover, it also procures some part of its billet requirements from the open market. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices. (Though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Thin profit margins

Notwithstanding the increase in TOI, EBITDA decreased from Rs.42.59 crore in FY2022 to Rs.41.01 crore in FY2023 resulting in decrease in EBITDA margin from 4.51% in FY2022 to 2.42% in FY2023. The decrease in operating margin is majorly attributable to a significant increase in trading sales in the overall sales composition where margins are relatively lower. Nevertheless, net profit increased substantially from Rs.8.77crore in FY2022 to Rs.21.86 crore in FY2023 due to increase in non-operational income coupled with decrease in depreciation provision and interest cost. Non-operating income increased substantially from Rs.3.29 crore in FY2022 to Rs.9.39 crore in FY2023 due to receipt of insurance claim of Rs.7.20 crore in FY2023 fiscal year which pertains to the damages caused in the solar power plant by the Taukte cyclone in May 2021. Interest cost decreased in FY2023 due to a decrease in overall interest rates. Consequently, PAT margin though improved from 0.92% in FY2022 to 1.28% in FY2023 continues to remain thin.

Intense competition

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including MSIL.

Exposure to foreign currency fluctuation risk

MSIL had export sales of Rs. 2.74 crore in FY2023 (Rs.10.00 crore in FY22) which constituted around 0.16% of the TOI of the company. Also, the company had import purchase to the tune of Rs.383.79 crore in FY2023 (Rs.119.72 crore in FY2022). However, in absence of proper hedging policy the company is exposed to foreign currency fluctuation risk.

Cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including MSIL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity: Adequate

The liquidity profile of the company is expected to remain adequate marked by sufficient cash accruals of Rs.36.85 crore achieved in FY2023 vis-à-vis its debt repayment obligation. The average utilisation of fund-based limits also remained moderate at ~73% during the last twelve months ended August 2023 providing adequate buffer in its working capital limits. Current ratio remained comfortable at 1.41x as on March 31, 2023. The overall gearing also stood comfortable at 0.31x as on March 31, 2023, indicating a sufficient gearing headroom.

About the Company

Incorporated in 1992, Gujarat based Mono Steel India Limited (MSIL) is engaged in manufacturing of sponge iron, billets and TMT bars with an installed capacity of 1,20,000 MT of sponge iron, 1,00,000 MT of billets and 1,00,000 MT of TMT bars. The company also has a 12MW (6MW each for Waste Heat Recovery System and Coal based thermal plant) captive power plant to support its operation. The steel manufacturing unit of the company is located at Kutch district of Gujarat. Moreover, the company also has a 10MW Solar Power plants located at Una near Diu. The power plant of the company is having a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) for 25 years.

The company has concluded a capex for installation of a wind and solar power plant of 6.3 MW and 5.4 MW capacity respectively in June 2023 which is used for captive consumption.

The company is also in a process of installing a furnace for manufacturing of billet with a capacity of 50,000 MTPA and the same is expected to be completed by June/July 2024.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	944.88	1698.18
EBITDA	42.59	41.01
PAT	8.77	21.86
Total Debt	40.40	77.78
Tangible Net worth (including quasi equity)	228.84	247.86
EBITDA Margin (%)	4.51	2.42
PAT Margin (%)	0.92	1.28
Overall Gearing Ratio (x)	0.18	0.31

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA:

CRISIL has continued to classify the rating of MSIL under "ISSUER NOT COOPERATING" category as CRISIL B / Stable / A4 (ISSUER NOT COOPERATING) vide its Press Release dated January 06, 2023, due to non-availability of requisite information.

Brickwork has also continued to classify the rating of MSIL under "ISSUER NOT COOPERATING" category as BWR B / Stable / A4 (ISSUER NOT COOPERATING) vide its Press Release dated February 13, 2023, due to non-availability of requisite information to carry out a review.

Any other information: Nil

Rating History for last three years:

		Current Rating (Year 2023-24)			Rating History for the past 3 years			
Sr. No.	**Name of Instrument/ Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**		**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
					July 21, 2022	**June 28, 2022**		**March 30, 2021**
1	Cash Credit	Long Term	52.00	IVR BBB+ / Stable	IVR BBB+ / Stable	IVR BBB+ (INC)	-	IVR BBB+ (Credit Watch with Developing Implications)
2	Letter of Credit	Short Term	188.00	IVR A2	IVR A2	IVR A2 (INC)	-	IVR A2 (Credit Watch with Developing Implications)

Name and Contact Details of the Rating Analyst:

Name: Harshita Gupta Tel: (033)- 46022266 Email: hdidwania@infomerics.com	Name: Avik Podder Tel: (033)- 46022266 Email: apodder@infomerics.com

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.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

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

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	-	52.00	IVR BBB+ / Stable
Letter of Credit	-	-	-	188.00	IVR A2

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-MSIL-oct23.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.