N.N. Ispat Private Limited

July 11, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	72.22	IVR A-; Stable Outlook (IVR A Minus with Stable Outlook)	Revised	Simple
Short Term Bank Facilities	40.00	IVR A2+ (IVR A Two Plus)	Revised	Simple
Total	**112.22 (One hundred twelve crore and twenty two lakh)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of N.N. Ispat Private Limited (NNIPL) considers the close operational and financial linkages between AIIPL, NN Ispat Private Limited (NNIPL) and RAIC Integrated Sponge & Power Pvt Ltd (RISPPL) (commonly referred as AIC group). The revision in the ratings assigned to the bank facilities of NNIPL considers healthy improvement in the revenue, profit level and cash accruals of the AIC Group in FY22 and in FY23 (Provisional). Further, the group's ongoing capex towards capacity enhancement of sponge iron, power plant and billets is expected to drive further growth in revenues and profitability. The ratings also continue to derive comfort from the extensive experience of the AIC Group's promoters in iron and steel industry, semi-integrated nature of operations and strategic location of plants. The ratings also positively factor in AIC group's satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics. However, these rating strengths continues to remain constrained due to project execution and stabilisation risks associated with ongoing capex and susceptibility of its profitability to volatility in raw material and finished goods prices. The ratings also continue to consider high competition and cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis

- Improvement in the capital structure with improvement in TOL/TNW and improvement in debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors

- Decline in operating income and/or profitability impacting the debt coverage indicators,
- Higher than-envisaged debt-funded capex and/or delays in implementation and stabilisation of projects
- Moderation in the capital structure with overall gearing more than 2x
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and resourceful promoters**
  The promoters of the AIC group, the Adukia family of West Bengal have more than two decades of experience in the iron and steel industry. The overall affairs of the AIC group are being managed by Mr. Dinesh Adukia along with his brothers. The promoters are resourceful and have also supported the group companies by infusing unsecured loans as and when required to support the business operations.
- **Semi-integrated nature of operations of the group and strategic location of plants**
  The manufacturing facilities of the AIC group are located in Purulia and Burdwan districts of West Bengal which is in close proximity to various steel plants, nearby coal fields and various producers/dealers of its main raw materials. This results in easy availability of quality raw materials and savings in transportation costs. Moreover, RISPPL is a semi- integrated steel player engaged in manufacturing of sponge iron, silico manganese, billets and thermos- mechanically treated (TMT) bars with a captive power plant. Currently, the group is also in the process of setting up sponge iron, billet and power plant in AIIPL to further backward integrate its operations. Accordingly, vertical integration in operations coupled with proximity to the source of raw materials & end user market provides a competitive edge to the AIC Group.

- **Improvement in revenue and profit level in FY22 and in FY23**
  Total operating income of AIC group has increased at a CAGR of ~40% over FY21-FY23 with a y-o-y growth of ~ 32% in FY23 driven by increase in manufacturing capacity for billet, sponge iron and TMT bars. Besides, the sales growth was also supported by increase in sales volumes, coupled with increase in realisations of key products. In FY23 (Provisional), the group achieved revenue of Rs.2194.05 crore as compared to Rs.1657.66 crore in FY22. Further, EBITDA level has also increased from Rs.109.78 crore in FY22 to Rs.132.33 crore in FY23 owing to improvement in scale. Consequently, PAT and cash accruals have also improved.

- **Satisfactory financial risk profile marked by satisfactory gearing and debt protection metrics**
  The AIC group on a combined basis, has satisfactory financial risk profile. The overall gearing of AIC group remained moderate at 1.80x as on March 31, 2023 as against 1.89x as on March 31, 2022 notwithstanding the rise in total debt to fund ongoing capex and to fund increased working capital requirements. The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood comfortable at 3.98x in FY23 and 5.65 years as on March 31,2023 respectively. Total indebtedness of the group as reflected by TOL/TNW stood comfortable at 2.71x as on March 31, 2023 (Prov.). Infomerics expects the capital structure of the group expected to remain moderate in the near term due to ongoing debt funded capex.

Key Rating Weakness:

- **Vulnerable to project execution and stabilisation risks associated with ongoing capex**
  The group is undertaking capex towards expansion and capacity enhancement. It is setting up sponge iron plant with a capacity of 105000 MTPA, Power plant of 22.5 MW and billet plant with a capacity of 99000 MTPA. Earlier the company had planned to set up sponge iron plant of 105000 MTPA and power plant of 12 MW at a total cost of Rs. 53.60 crore (funded by term loan of Rs. 37.50 and promoter contribution of Rs. 16.10 crore). However, the group has now revised the scope of the project to increase the capacity of power plant to 22.5 MW due to implementation of modern technology; resulting in cost efficient on recurring basis and enhanced long life. Further, the company also planned to install 2 No - 16.50 MT Induction Furnace for manufacturing Billets to consume the extra units generated in CPP.

Due to revision in the scope of project, total project cost has been revised to ~Rs. 125 crore funded by term loans of Rs. 95 crore and balance by promoters fund. The project is expected to be completed by September 2023.Timely completion and stabilisation of project will remain key monitorable.

- **Volatility in the prices of raw materials and finished goods**

  Major raw-materials required for the group are iron-ore and coal for manufacturing of sponge iron. Raw materials accounted for ~70-80% of total cost of production in the last three fiscals. The group lacks backward integration for its basic raw materials (iron ore and coal) and has to procure the maximum requirement from open market. Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the group is susceptible to fluctuation in raw-material prices. On the other hand, the finished foods are also volatile and dependent upon economic cycles and global demand supply scenarios.

- **High competition and cyclicality in the steel industry**

  The group faces stiff competition from not only established players, but also from the unorganised sector. Besides, 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. However, the outlook for the steel industry in the short to medium term appears to be good with expected robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector. However, any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact the AIC group adversely.

Analytical Approach: Combined

For arriving at the ratings, Infomerics has considered the combined financials of three companies constituting the AIC Group considering the same management and 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)

Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of the AIC group is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals of Rs.97-102 crore as against its repayment obligations of Rs.38-50 crore during FY24-26. Moreover, the average working capital limit utilisation was ~75% during the past twelve months ended March 2023, leaving the group with a comfortable liquidity buffer.

About the Company

NNIPL was incorporated in 2004. In November 2008, the company was taken over by Adukia group of West bengal. The company is presently engaged in manufacturing of MS Billets and TMT bars with installed capacity of 200000 MTPA and 236000 MTPA respectively. Its manufacturing facility is located at Burdwan district of West Bengal.

About the Group

The promoters of AIC Group have been in the iron and steel business for more than 20 years. The AIC group is engaged in manufacturing of steel products through various companies under its folds. The companies operating under AIC Group are AIC Iron Industries Private Ltd, NN Ispat Private Limited and RAIC Integrated Sponge & Power Pvt Ltd, which are all controlled by the similar management and have common control.

Financials (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Combined	Combined
Total Operating Income	1657.66	2194.05
EBITDA	109.78	132.33
PAT	41.75	50.19
Total Debt	377.89	451.66
Tangible Net worth	200.26	250.44
EBITDA Margin (%)	6.62	6.03
PAT Margin (%)	2.51	2.29
Overall Gearing Ratio (x)	1.89	1.80

**As per Infomerics' Standard*

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	817.21	921.00
EBITDA	30.30	33.35
PAT	15.13	13.91
Total Debt	46.98	50.91
Tangible Net worth	70.90	84.81
EBITDA Margin (%)	3.71	3.62
PAT Margin (%)	1.85	1.51
Overall Gearing Ratio (x)	0.66	0.60

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Care Edge Ratings has maintained the rating of N.N. Ispat Private Limited into the Issuer Non-Cooperating category as the entity did not cooperate in providing information despite repeated follow ups as per the Press Release dated May 5, 2023.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		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
1.	Term Loan/GECL (including unallocated limit of Rs. 3.81 crore)	Long Term	12.22	IVR A- / Stable Outlook	IVR BBB+ / Positive Outlook (April 12, 2022)	-	IVR BBB / Stable Outlook (Jan 13, 2021)
2.	Cash Credit	Long Term	60.00	IVR A- / Stable Outlook	IVR BBB+ / Positive Outlook (April 12, 2022)	-	IVR BBB / Stable Outlook (Jan 13, 2021)
3.	Non Fund based	Short Term	40.00	IVR A2+	IVR A2 (April 12, 2022)	-	IVR A3+ (Jan 13, 2021)

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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).

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.

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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
Term Loan/GECL (including unallocated limit of Rs. 3.81 crore)	-	-	Nov 2026	12.22	IVR A- / Stable
Cash Credit	-	-	-	60.00	IVR A- / Stable
Non Fund based	-	-	-	40.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
AIC Iron Industries Private Ltd (AIIPL)	Full consolidation
NN Ispat Private Limited (NNIPL)	Full consolidation
RAIC Integrated Sponge & Power Pvt Ltd (RISPPL)	Full consolidation

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-nni-jul23.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.