

**Press Release**

**M/s Ispat India**

**March 27, 2018**

**Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Long Term Facilities- Term Loan	8.50	IVR BBB - / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term Fund Based Facilities- Cash Credit	18.00	IVR BBB - / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
<b>Total</b>	<b>26.50</b>		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The aforesaid ratings assigned to the bank facilities of M/S Ispat India derive comfort from its experienced partners with strong support & group synergy, being a part of the Agrasen group based in Raipur (Chhattisgarh), locational advantage, agreement with Kamdhenu Limited (KL), established marketing arrangements, improvement in financial performance with healthy debt protection parameters and prudent working capital management. However, the ratings are tempered by its short track record under the new management, risk of withdrawal of capital by partners, volatile input prices, high competition in the operating spectrum and leveraged capital structure. Growth in scale of operation alongwith continuance of agreement with KL, profitability, gearing level and efficient working capital management are the key rating sensitivities.

**List of Key Rating Drivers**

- Experienced partners with strong support & group synergy being a part of the Agrasen group based in Raipur (Chhattisgarh)
- Locational advantage
- Agreement with Kamdhenu Limited (KL)
- Established marketing arrangements concentration
- Improvement in financial performance

## **Infomerics Valuation And Rating Pvt. Ltd.**

- Healthy debt protection parameters
- Prudent working capital management
- Short track record
- Risk of withdrawal of capital by partners
- Volatile input prices
- High competition
- Leveraged capital structure

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

*Experienced partners with strong support & group synergy*

The Agarwal family, the promoters of the Agrasen group based in Raipur has adequate experience in manufacturing and trading of steel products through various companies under its fold and has an experience of more than a decade. The current partners took over the firm in 2016. Further, group has shown positive commitments with fund infusion to revive the operations. The Agrasen group is mainly engaged into manufacturing of steel wires, Ms. Ingot, Billets and steel rolled products through various companies under its fold.

*Locational advantage*

The manufacturing facility of Ispat India 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.

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

The firm has a licensee agreement with KL to market its products under the brand name of “Kamdhenu”. As per the agreement (which is initially valid for three years renewable thereafter) , the firm needs to pay royalty fees for the use of “Kamdhenu” brand. The use of the established ‘Kamdhenu’ brand helps the firm to effectively market its products. Further, the Agrasen group has an established relationship with KL, also through other companies of

## **Infomerics Valuation And Rating Pvt. Ltd.**

the group under respective franchise agreements with KL. In view of its established relationship with KL, the risk of non-renewal of contract is less.

### *Established marketing arrangements*

KL has a dealer/distributors network of around 2400 dealer and 100 distributors across the country. The firm sells its products to the distributors of KL. 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 operations 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.

### *Improvement in financial performance*

Since commencement of operations in August 2016 the firm has achieved a total operating income of Rs.117.28 crore with an EBITDA margin of 8.23% and a PAT margin of 2.64% in FY17 (refers to the period from April 1 to March 31). The firm had generated gross cash accruals of Rs.7.04 crore in FY17. Further, in 10MFY18 (refers to the period from April 1 to January 31) the firm had achieved a total operating income of Rs.195.82 crore with an EBIDTA margin of 9.33%. The growth in total operating income is fuelled by increasing acceptance of “Kamdhenu” branded Ms Pipes/Tubes backed by established and well accepted brand of “Kamdhenu” in TMT bar segment. Further, use of strong dealership network and marketing channel of KL and the Agrasen group also supported the growth in sales.

### *Healthy debt protection parameters*

The debt protection parameters remained healthy with the interest coverage ratio of 3.24x in FY17 and Total debt to GCA (excluding Subordinated Debt) at 2.73x as on March 31, 2017. Further, the interest coverage ratio improved to 8.83x in 10MFY18 and the Total Debt/GCA (Excluding Subordinate Debt) stood comfortable at 1.32x in 10MFY18.

### *Prudent working capital management*

The operation of the firm is working capital intensive as it needs to hold sufficient inventory of raw materials to run the productions in an efficient manner. However, the firm managed its working capital prudently in its initial year of operation. Further, the average cash credit utilisation also remained moderate at ~80% during the past 12 months ended on January,

## **Infomerics Valuation And Rating Pvt. Ltd.**

2018. However, the working capital cycle and consequent increase in working capital requirement is expected to go up with growth in operations.

### **Key Rating Weaknesses**

#### *Short track record*

Under the new partners, the firm has started its operations from August 2016 and accordingly has a short track record.

#### *Risk of withdrawal of capital by partners*

Being a partnership firm, the entity is exposed to the risk of withdrawal of capital. Any draws from the capital is a key monitorable for rating.

#### *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 (accounting for ~74% in FY17 and ~77% of total cost of sales in 10MFY18). Given that the prices of raw-materials are volatile in nature, the firm's profitability is susceptible to fluctuation in raw-material prices.

#### *High competition*

MS pipes/Tube industry is intensely competitive due to presence of many large/small established/unorganised players in the operating spectrum due to its low entry barriers. High competition in the operating space restricts the profit margin of the market participants. However, since the firm is selling its products under the brand name of "Kamdhenu" it has a competitive advantage as the brand "Kamdhenu" is well established and well accepted in the TMT bar segment.

#### *Leveraged capital structure*

Before the ownership changes, the net worth of the firm remained negative due to continuous losses. However, after the ownership changes the new partners had infused funds in the business to run the operations and the net worth turned positive in FY16. The debt profile of the firm includes subordinated unsecured loans from the partners and associates aggregating to Rs.9.29 crore. Treating the same as neither debt nor equity, the overall gearing ratio

## Infomerics Valuation And Rating Pvt. Ltd.

remained high at 3.46x as on March 31, 2017. However, as on January 31, 2018 the overall gearing ratio improved to 1.52x.

### Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### 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, 2016 with Shri Yogesh Kumar Gupta, Shri Narendra Gupta, Shri Navnet Gupta, Shri Sahil Singh, Shri Kushan Garg, Shri Nand Kishore Agrawal, Smt Gayatri Agrawal, Smt.Suman Agrawal, Smt. Pratibha Devi Agrawal and M/s. Jai Ambey Indocem Pvt. Ltd as partners.

The Agrasen Group was established by, Raipur based, one 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.

### Financials (Standalone):

	(Rs. crore)
For the year ended* / As On	31-03-2017
	Audited
Total Operating Income	117.28
EBITDA	9.65
PAT	3.10
Total Debt (excluding subordinated unsecured loan of Rs.9.29 crore )	19.19
Tangible Net worth	5.55
EBITDA Margin (%)	8.23
PAT Margin (%)	2.64
Overall Gearing Ratio (x)	3.46

\*Classification as per Infomerics' standards.

## Infomerics Valuation And Rating Pvt. Ltd.

### Status of non-cooperation with previous CRA:

- CARE has put the rating on the bank facilities of Ispat India under 'ISSUER NOT COOPERATING; Based on best available information' category vide press release dated January 17, 2018 on account of lack of adequate information and non-payment of surveillance fees

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Facilities – Term Loan	Long Term	8.50	IVR BBB - / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits- Cash Credit	Long Term	18.00	IVR BBB - / Stable Outlook	-	-	-

**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](http://www.infomerics.com).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: [apodder@infomerics.com](mailto:apodder@infomerics.com)

### 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.



## Infomerics Valuation And Rating Pvt. Ltd.

**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, suspend 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
Long Term Facilities – Term Loan			Sep-22	8.50	IVR BBB - / Stable Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	18.00	IVR BBB - / Stable Outlook