Press Release

Mongia Steel Ltd.

May 30, 2018

Rating

Instrument / Facility	Amount	Rating	Rating Action
Long Term Fund Based Limits	Rs.31.00 crores	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Non-Fund Based Limits	Rs.8.00 crores	IVR A2 (IVR A Two)	Assigned

Details of Facility are in Annexure 1

Detailed Rationale

The ratings derive comfort from the experience of the promoters and their long track record, established brand and distribution network, strategic location and integrated manufacturing facilities, comfortable gearing and debt protection metrics and improving capacity utilisation. The ratings are constrained by moderate scale of operations, geographical concentration risk, working capital intensive nature of operations, high competition and cyclicality in the steel industry and volatility in the prices of raw materials and finished goods. Growth in scale of operations, profitability and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoter with long track record
- Established Brand with diversified distribution network
- Strategic location and integration of the manufacturing facilities
- Comfortable gearing and debt protection metrics coupled with no long term borrowings
- Improving capacity utilisation
- Moderate scale of operations
- Working capital intensive nature of operations
- Volatility in the prices of raw materials and finished goods

- Geographical concentration risk
- High competition and cyclicality in the steel industry

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter with long track record

Mongia Steel Limited (MSL) was promoted by Mr. Gunwant Singh Saluja in the year 1995. He looks after the day to day activities along with his son, Mr. Harinder Singh Saluja. Mr. Gunwant Singh Saluja has close to 35 years of experience in the steel industry. Initially, the company manufactured Cold Twisted Deformed (CTD) bars. Around 2003, the company installed hot steel rolling facility to manufacture Thermo Mechanically Treated (TMT) bars as its main product. In 2004, Santpuria Alloys Private Ltd (SAPL) was set-up to manufacture sponge iron in an effort to achieve backward integration. The entire production of SAPL is sold to MSL. The company has been successful in establishing its brand over the course of the last 15 years.

Established Brand with diversified distribution network

The company markets its TMT bars under the brand "Mongia Steel ES Power". The company has been able to establish its brand over the course of the last 15 years with a focussed advertising campaign to raise brand awareness and recall. MSL has built up a network of around 600 dealers & 1000 sub dealers.

Strategic location and integration of the manufacturing facilities

The manufacturing facilities of both MSL and SAPL are located within a distance of 3-4 kms of each other in the District of Giridih in Jharkhand. Majority of the sponge iron requirement for MSL plant is fulfilled by SAPL. The plant is located in close proximity to the raw material suppliers that fulfil their requirement of iron pellets, pig iron, melting scrap and coal.

Comfortable gearing and debt protection metrics coupled with no long term borrowings

MSL does not have any long term debt on its books. The debt protection metrics for the company are comfortable as on March 31, 2018 (provisional), with the interest coverage ratio and overall gearing ratio standing at 3.96x and 0.59x, respectively, as compared to 2.98x and 0.57x, as on March 31, 2017.

Improving capacity utilisation

The capacity utilisation for the manufacturing facility of MSL has improved over the last three years; from 55.21% in FY16 to 59.16% in FY17 and further to 66.67% in FY18.

Key Rating Weaknesses

Moderate scale of operations

The total income of the company increased by 15.98% in FY18 (provisional) over FY17. The company reported PAT of Rs.4.9 crore on total net sales of Rs.225.9 crore for FY18 (provisional), implying a moderate scale of operation. The company reported EBITDA margin in the range of 5.50%-6.00%.

Working capital intensive nature of operations

The operations of MSL are reliant on working capital management, due to the long holding period for inventory as well as the credit period that MSL has to extend to its customers. The operating cycle for the company has reduced to 57 days for FY18 (provisional) from 63 days in FY17. The average utilisation of the working capital limit was around 87% for 12 month period from April 2017 to March 2018.

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 sponge iron which is one of the main raw materials required for MSL fell by around 12% in FY17 as compared to FY16, but increased by around 8% in FY18. Similarly, the price realisation for TMT bars also witnessed a fall of around 4% in FY17 as compared to FY16, and increased by around 12% in FY18. The costs of raw materials and finished goods are volatile in nature and hence, MSL's profitability is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

Geographical concentration risk

MSL has a presence in Jharkhand, Bihar, Uttar Pradesh, Orissa, West Bengal and the north eastern region. But, the states of Jharkhand and Bihar together contributed around 80% of its sales in FY18 (provisional). Hence, the company is exposed to geographical concentration risk. The company has begun efforts to strengthen its brand presence and grow its sales in the markets of Uttar Pradesh and Orissa.

High competition and cyclicality in the steel industry

The Mongia group mainly operates in the Eastern part of India, which is known as the steel hub of the country. The company faces stiff competition from not only established players, but also from the unorganised sector as there is a low level of product differentiation. But, the Mongia group has been able to establish a strong presence with its brand.

The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. But, the outlook for the steel industry in the short to medium term appears to be good with robust demand in the domestic markets.

Analytical Approach & Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation – Non-Financial Companies

About the Company

Incorporated in 1995 as Mongia Hi-Tech Private Ltd, Mr. Gunwant Singh Saluja took over complete control of the company around 2000. The company was later renamed as Mongia Steel Ltd (MSL). The company is engaged in the manufacture and trading of steel products. Its manufactured products include TMT bars, Billets, Mild Steel (MS) tube, MS profile, MS guide channel, MS angle, springs, pipes, etc. The principal product of MSL is Thermo Mechanically Treated (TMT) bars. The company sells the TMT bars under the brand name "Mongia Steel ES Power". MSL has been able to establish its brand over the years in the markets of Jharkhand, Bihar, Orissa, Uttar Pradesh, West

Bengal and North eastern region. The company has been able to build a network of around 600 dealers & 1000 sub dealers.
The company reported PAT of Rs.4.9 crore on total net sales of Rs.225.9 crore for FY18 (provisional).

Financials (Standalone) **(Rs. Crores)**

For the year ended / Rs. Crs*	31-03-2017	31-03-2018
	Audited	Provisional
Total Operating Income	194.8	225.9
EBITDA	11.3	12.9
Interest	3.5	3.3
PAT	3.5	4.9
Total Debt	25.8	29.5
Tangible Net worth	45.0	49.9
Ratios (%)		
a. EBITDA Margin	5.8	5.7
b. PAT Margin	1.8	2.2
c. Overall Gearing ratio	0.6	0.6

Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Credit Analysis & Research Limited (CARE Ratings) and CRISIL which have earlier rated the company, have classified it as 'ISSUER NOT COOPERATING' category due to non-submission of information as per Press Release dated April 19,2017 and April 27, 2018 respectively.

Any other information: Nil

Disclosure

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits	Long Term	26.00	IVR BBB+/Stable Outlook	--	--	--

				(IVR Triple B Plus with Stable Outlook)			
2.	Short Term Non-Fund Based Limits	Short Term	8.00	IVR A2 (IVR A Two)	--	--	--

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 Facility

Name of Facility	**Date of Issuance**	**Coupon Rate/ IRR**	**Maturity Date**	**Size of Facility(Rs. Crores)**	**Rating Assigned/ Outlook**
Long Term Fund Based Limits	-	-	-	31.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
Short Term Non-Fund Based Limits	-	-	-	5.00	IVR A2 (IVR A Two)