



# Infomerics Valuation And Rating Pvt. Ltd.

Press Release

## Maharaja Ispat Private Limited

September 5, 2018

### Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank facilities	16.50	IVR BB+ /Stable (IVR Double B plus with Stable Outlook)	Assigned
<b>Total</b>	<b>16.50</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The rating assigned to the bank facilities of Maharaja Ispat Private Limited (MIPL) derive comfort from its experienced promoters, commencement of manufacturing operation, strategic location of plant with backward & forward integration initiatives, improving profitability. However, the rating is constrained by its short track record in manufacturing, volatility in the prices of raw materials and finished goods, stretched debt protection matrices, and high competition. Stability in manufacturing operation and growth in scale, profitability & gearing levels and working capital management are the key rating sensitivities.

### List of Key Rating Drivers

- Experienced promoter
- Commencement of manufacturing operation
- Strategic location of plant with backward & forward integration initiatives
- Improving profitability
- Short track record in manufacturing & low scale of operation
- Volatility in the prices of raw materials and finished goods
- Stretched debt-protection matrices
- High competition

### 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 more than 15 years of experience in the iron and steel industry. Mr. Agarwal heads the partnership firm Maharaja which is manufacturing coke for a long period of time. Over the years of its operation,

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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 manufacturing operation*

The company has started its manufacturing facility in Durgapur where they manufacture LPG Cylinders & Lancing Tubes. The project's COD was in January 2018, where they successfully set up the facility timely and manufacturing process started as per the projected plan. Currently, the company is running at its full capacity for lancing tubes. The company has bagged order of LPG cylinders, the quantitative details of the same is yet to be received by the company.

### *Strategic location of plant with backward & forward integration initiatives*

The manufacturing facility of MIPL is located in Durgapur, West Bengal, within a close vicinity from the top three bottling plants in the eastern region, 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 licence 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.

### *Improving profitability*

The company was earlier into trading of coke where the margin was low. The company has now ventured into manufacturing of cylinders and lancing tubes. The margin in manufacturing of LPG Cylinders & Lancing tubes is higher than that of trading, and healthy demand for both the products in the eastern region will lead to growth in operations as well as profitability.

## **Key Rating Weaknesses**

### *Short track record in manufacturing & low scale of 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 six months only. There is no past record for the similar operation. Also, currently the scale of operations is low.

### *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, fell by around 8% from July 17 to March 18 as compared to rise in the prices by 7.5% from March 18 to August 18. Similarly, the price

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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.

### *Stretched debt-protection matrices*

MIPL has a stretched long term debt-equity ratio of 1.98x and a high overall gearing ratio at 3.52x as on March 31, 2018 (Provisional). The ratios are stretched due to company taking recourse to debt for its manufacturing facility. DSCR is stretched as on March 31, 2018 (provisional) at 0.87x due to the instalments falling due in FY 18, where the productions just started FY18, the same has been paid by raising quasi equity. Interest coverage ratio was satisfactory at 11.78x.

### *High competition*

MIPL mainly operates in the State of West Bengal and is likely to face stiff competition from not only established players, but also from the small players due to low level of product differentiation. Also, there is risk that demand might fall 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 & Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **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) as planned was in January 18. The manufacturing facility of the company is located at Durgapur with an installed capacity of 12000 MTPA for Lancing Tubes and 4.50 Lacs LPG Cylinders per year. MIPL has already commenced operations and have started manufacturing Lancing Tubes and are getting a good response which has made them run it at its full capacity.

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The company has started bidding for LPG Cylinders and has bid for a tender at Indian Oil Corporation Limited (IOCL) and have bagged the tender, however quantitative details are yet to be received by the company. MIPL has obtained licence for production of LPG Cylinders from Bureau of Indian Standards in June 18. Also, MIPL intends to start repairs of cylinders as another business segment due to the increasing demand.

### Financials (Consolidated):

(Rs. crore)

For the year ended* / As On	31-03-2016	31-03-2017	31-03-2018
	<b>Audited</b>	<b>Audited</b>	<b>Provisional</b>
Total Operating Income	14.20	20.78	31.77
EBITDA	0.16	0.41	0.63
PAT	0.10	0.24	0.48
Total Debt	0.00	0.00	13.59
Tangible Net worth	2.35	2.60	3.08
EBITDA Margin (%)	1.15	1.95	1.98
PAT Margin (%)	0.71	1.18	1.50
Overall Gearing Ratio (x)	0.00	0.00	3.52

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Nil

### Rating History for last three years:

Sr. 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 - Term Loan	Long Term	6.50	IVR BB+ / Stable Outlook	-	-	-
2	Long Term Fund Based Limits - Cash Credit	Long Term	2.50	IVR BB+ / Stable Outlook	-	-	-
3	Long Term Fund Based Limits - Cash Credit (Proposed)	Long Term	7.50	IVR BB+ / 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).



## Infomerics Valuation And Rating Pvt. Ltd.

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

Name: Ms. Aakanksha N. Banthia

Tel: (033) 46022266

Email: [abanthia@infomerics.com](mailto:abanthia@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.

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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	Sept-2017	12.30%	Mar-2024	6.50	IVR BB+ /Stable Outlook
Cash Credit	-	-	-	2.50	IVR BB+ /Stable Outlook
Cash Credit (Proposed)	-	-	-	7.50	IVR BB+ /Stable Outlook