

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

MDA Mineral Dhatu (AP) Pvt Ltd

June 06, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Facilities -Cash Credit	7.50	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
Total	7.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of MDA Mineral Dhatu (AP) Pvt Ltd derives comfort from the long-standing experience of the promoters, strategic location of its plant and improvement in the operating performance over the last two fiscals. The rating also factors in gradual improvement in the capital structure and its prudent working capital management. However, the rating strengths are tempered by its short track record and small scale of operations, volatility in raw material and finished goods prices, absence of captive source of power, customer concentration risk, intense competition and complete dependence of ferro alloys industry on the cyclical steel sector. Growth in scale of operations with improvement in profitability, diversification in customer profile, efficient working capital management and gearing level are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters have about a decade long experience in the ferro-alloy business. Long standing presence of the promoters in the industry has resulted in established relationship with its customers and suppliers. Further, the promoters supported the business of MMDPL by infusing funds in the form of interest-bearing unsecured loans (Rs.21.2 crore outstanding as on March 31, 2018) and have demonstrated positive commitments since inception. Presently, the day to day operations of the company are managed by Mr. Vidhan Mittal (Director) ably supported by other board members and experienced key managerial personnel of the company.

Strategic location

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The manufacturing facility of the company is located in Vizianagaram district, Andhra Pradesh which is in close proximity to manganese ore mines (~50-60Km). Apart, it has easy accessibility to Visakhapatnam Port (~100-110Km) for importing the raw materials.

Improvement in operating performance

The financial performance of the company remained moderate over the past three years [FY16-FY18] whereby the total operating income (TOI) of the company witnessed a volatile trend. The company turn profitable in FY17. Further, the company has registered a total operating income of Rs.58.07 crore with a y-o-y growth of ~42% in FY18 mainly driven by increase in sales realisation attributable to improvement in its major consumer, the steel industry. However, the EBIDTA margin though declined in FY18 remained moderate at 8.64%. The net profit margin of the company though stayed range-bound in between 3% - 4.1% during FY17-FY18 remained moderate. The operating income though remained small further improved to ~Rs.65 crore in FY19 (Prov.).

Gradual improvement in the capital structure

The company has accumulated loss owing to net loss incurred in its initial years of operation pertaining to its initial teething problems along with low sales realisation due to subdued steel industry scenario. With continuous losses, the company's capital structure deteriorated substantially over the years leading to negative net worth till March 31, 2017. However, the debt profile of the company mostly constitutes unsecured loan (interest bearing and subordinated to the bank borrowings) from the promoters to support the business operations. Further, with profit from its operation since FY17, the capital structure of the company improved in FY18 and the overall gearing remained moderate at 1.65x (treating the subordinated unsecured loan amounting to Rs.21.22 crore as neither debt nor equity) as on March 31, 2018. The capital structure is expected to improve further going forward. INFOMERICS expects that subordinated unsecured loan amounting to Rs.21.22 crore will remain in the business till the maturity of the bank facilities.

Prudent working capital management

The operations of the company are working capital intensive mainly due to its strategy to procure manganese ore in bulk to get better rates and discounts. The operating cycle of the company remained moderate with 50-60 days during FY16-FY18. The average maximum

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utilisation of its bank borrowings remained satisfactory at ~45% during the past 12 months ended on March 2019. Lower utilisation of bank limits indicates adequate buffer in times of stress.

Key Rating Weaknesses

Short track record and small scale of operations

MMDPL started its operation since 2013 and accordingly has a short track record of less than a decade. Further, the scale of operations of the company also remained small over the years. Small scale of operations restricts the financial flexibility of the company in times of stress and it suffers on account of economies of scale.

Volatility in raw material and finished goods prices

The price of manganese ore, which is the main raw material for the company, is characterised by high volatility. As MMDPL does not have captive supply or long-term contracts with the suppliers, it procures manganese ore at market prices, which keeps its profitability exposed to volatility in raw material prices. Volatility can be corroborated from the fact that MMDPL witnessed erratic trend in its operating margin in the past. Further, the ferro alloys manufacturing operations involve limited value addition. Limited value addition with lower level of backward integration has a bearing on the profit margins of the company. Low sales realisations vis-à-vis increasing cost of operations has resulted in operating loss for the company in past.

Absence of captive source of power

The ferro alloys manufacturing operations is energy intensive. Power cost is the second most costly component for MMDPL comprising around ~42% of the total cost of production in FY18 (42% in FY17). MMDPL does not have any captive power plant. Accordingly, MMDPL's operations are vulnerable to any revision in power tariff rates.

Customer concentration risk albeit low counterparty risk

The company is exposed to customer concentration risk as over 80% of the revenue comes from a single customer. However, sound financial risk profile of the customer indicates low counterparty risk.

Intense competition

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The industry is highly fragmented with presence of large number of organised and unorganised players owing to low entry barriers and no product differentiation resulting in stiff competition and pricing pressure among players in the industry.

Complete dependence of ferro alloys industry on the cyclical steel sector

The demand for ferro alloys is a derived demand and its prospects are closely-linked to the demand emanating from the steel industry which is the major purchaser of ferro alloys.. Hence, the demand and prices of ferro alloys depend on and follow the production and consumption of steel. The steel industry is sensitive to the shifting business cycles to a large extent, exposing the company to the cyclicity inherent in the steel industry.

Analytical Approach: Standalone.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The company is expected to have adequate liquidity in near term driven by lower reliance on external debt and funding of its working capital requirements through own sources. Further, the company has nil term debt repayment obligations in near term. Further, the liquidity position is also backed by adequate buffer in its working capital borrowing limits (average of maximum utilisation of bank borrowings stood at ~45% for the past 12 months ended March, 2019).

About the Company

Incorporated in 2010, MDA Mineral Dhatu (AP) Pvt Ltd (MMDPL) was promoted by Mr. Vijay Mittal and Mr. Vidhan Mittal (son of Mr. Vijay Mittal). The company started its commercial operations from August, 2013 and is engaged in manufacturing of High carbon ferro-manganese, ferro-silicon and silicon manganese with its 6MVA (5MW) ferro-alloy submerged electric arc furnace located at Bobbili of Vizianagaram district, Andhara Pradesh.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	40.64	58.07
EBITDA	5.21	5.02

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For the year ended* / As On	31-03-2017	31-03-2018
PAT	1.66	1.76
Total Debt (Excl. Subordinated Loans)	5.13	4.01
Tangible Net worth	-0.21	2.42
EBITDA Margin (%)	12.81	8.64
PAT Margin (%)	4.05	3.07
Overall Gearing Ratio (x) (Excl. Subordinated Loans)	NM	1.65

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:

Ind-Ra has moved the rating of MMDPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 18, 2019.

ICRA has moved the rating of MMDPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated December 26, 2018.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	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.

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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

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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
Long Term Fund Based Limits—Cash Credit	-	-	-	7.50	IVR BB+/ Stable Outlook