Press Release

Devi Iron & Power Private Limited

September 19, 2019

Ratings
Details of Facilities are in Annexure 1

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	30.00 (including proposed limit of Rs.5.00 crore)	IVR BBB+ /Stable (IVR Triple B plus with Stable Outlook)	Assigned
Long Term Bank Facilities – Term Loan	5.40	IVR BBB+ /Stable (IVR Triple B plus with Stable Outlook)	Assigned
Short Term Bank Facilities – Overdraft	15.00	IVR A3+ (IVR A Three plus)	Assigned
Total	**50.40**		

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Devi Iron & Power Private Limited (DIPPL) derives comfort from the parentage of the Agrasen group and strong support from group synergy, locational advantage of the plant with the Agrasen group's semi integrated operations, agreement with Kamdhenu Limited (KL) along with established relationship of the Agrasen Group with KL. The ratings also consider improvement in financial performance of the group coupled with its comfortable capital structure and debt protection metrics. However, the rating strengths are partially tempered by volatility in raw material prices, highly competitive & fragmented nature of the industry and cyclicality in the steel industry.

Group's ability to scale up its operation with improvement in profitability, continuance of agreement with KL, sustenance of comfortable capital structure and efficient working capital management are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Parentage of the Agrasen group and strong support from group synergy

Devi Iron & Power Private Limited (DIPPL) is a part of Agrasen group, managed and operated by the Agrawal family having an experience of ~15 years in iron and steel industry. The Agrasen group has vast experience in steel products manufacturing and trading segment through various companies under its fold. The Agrawal family started their business operations with trading of steel products and gradually ventured in manufacturing operations in 2002 and consequently has more than one and half decades of experience in manufacturing of steel products. Currently, the Agrasen group has two business verticals – Trading and Manufacturing. Under manufacturing vertical, the group is engaged in manufacturing of steel wires, Ms. Ingot, Billets and steel rolled products. Under trading vertical the group is engaged in trading of various steel products. Further, the trading companies of the Agrasen Group, are empaneled vendors of large companies and supplies varied grades of iron and steel products.

Locational advantage

The manufacturing facility of DIPPL and other group entities namely, Agrawal Channel Mills Private Limited (ACMPL), Hindustan Coils Limited (HCL), M/s. Ispat India (II), Mahamaya Spong Iron Private Limited (MSIPL) and M/s. Om Sponge (OS) are 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 which are the main raw materials for manufacturing of its products. Consequently, sourcing of raw materials and logistics management becomes efficient for the group.

Semi integrated nature of operation of the group

The operations of the Agrasen group is semi-integrated with manufacturing facilities of both intermediate products like sponge iron, billets and end products like TMT bars, wires, structural, coils, tubes. Further, around 70-75% of sponge iron produced by DIPPL is procured by ACML, HCL and II. Moreover, under DIPPL, the group has access to an iron ore mine with around 8-10 crore tonnes reserve spread over an area of about 400 Hectare. However, the mining operation is expected to start soon and pending for regulatory clearances.

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

DIPPL offers backward integration to the other group companies of the Agrasen group. The Agrasen group has an established relationship with KL, as the group is also manufacturing MS Angle, channels in ACMPL, steel wires in HCL and steel pipes in II under respective license agreements to market its products under the brand name of "Kamdhenu". As per the agreement, the firm needs to pay royalty fees for the use of "Kamdhenu" brand. The use of the established 'Kamdhenu' brand helps the group to effectively market its products. In view of its established relationship with KL, the likelihood of continuing the brand licensing arrangement is high.

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 operation in the steel trading/manufacturing segment. The use of existing marketing arrangements of KL and the Agrasen group is advantageous to the group as a whole.

Improvement in financial performance of the group

The combined total operating income of the Agrasen group increased significantly during FY17-19 driven by continuous improvement in sales in its various companies resulting from increase in capacities with improved demand of its products, addition of new companies in its fold and start of commercial production of Hindustan Coils Limited (HCL) in FY18. Further, the Agrasen Group had taken over MSIPL and OS in May, 2018 and in July, 2018 respectively. New acquisitions coupled with steady improvement in sales mainly in ACML, II and HCL resulted in y-o-y growth of about 47.5% in FY19 (Prov.). However, the EBITDA margin of the Group moderated from 7.12% in FY18 to 5.88% in FY19. The moderation in the EBIDTA margin was mainly due to push in order to increase the volume sales in a competitive operating spectrum. With decline in EBIDTA margin the PAT margin also declined from 4.44% in FY18 to 2.93% in FY19 (Prov.). GCA has improved from Rs.52.32 crore in FY18 to Rs. 58.34 crore in FY19 (Prov.).

On a standalone basis, the total operating income of DIPPL witnessed a y-o-y growth of 77% in FY19 (prov.) as compared to FY18 aided by improved demand of its products.

Comfortable capital structure with healthy debt protection parameters

The financial risk profile of the Agrasen group remained comfortable marked by its satisfactory capital structure and healthy debt protection parameters. The overall gearing ratio of the group has improved from 2.02x as on March 31,2017 to 0.88x as on March 31,2019 (prov.) and remained comfortable. Further, treating the unsecured loans from the promoters amounting to Rs.25.05 crores as neither debt nor equity, the overall gearing ratio stood comfortable at 0.76x as on March 31,2019 (prov.). The debt protection parameters of the group remained healthy with an interest coverage ratio of 5.46x in FY19 (prov.) and Total debt (excluding Subordinated

Debt) to GCA at 2.72x as on March 31, 2019 (prov.). Total indebtedness of the Agrasen group as indicated by TOL/TNW remained satisfactory at 1.23x as on March 31,2019 (prov.).

On a standalone basis, the overall gearing ratio (excluding subordinated debt) of DIPPL remained comfortable at 0.44x as on March 31, 2019 (prov.); {0.33x as on March 31, 2018}. Further, the interest coverage ratio remained healthy at 6.84x in FY19 (Improved from 5.29x in FY18). Total indebtedness as indicated by TOL/TNW remained satisfactory at 0.76x as on March 31,2019 (prov.).

Key Rating Weaknesses

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. Given that the prices of raw-materials are volatile in nature, the group's profitability is susceptible to fluctuation in raw-material prices. However, the Agrasen group had acquired controlling stake in DIPPL in FY17 which has a sponge iron manufacturing capacity of 90000MTPA. Further, the group has acquired MSIPL and OS having a sponge iron manufacturing capacity of 30000 MTPA each, during FY19 which will also expected to support its overall sponge iron requirement and boost its profitability going forward.

Highly competitive & fragmented nature of industry

The spectrum of the steel industry in which the group operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

Cyclicality in Steel Industry

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on the firm's performance in view of its direct linkage to the fortunes of Steel industry. However, the outlook for the steel industry in the short to medium term appears to be good as the steel prices have hardened in the recent past, coupled with robust demand in the domestic market.

Analytical Approach: Combined approach

For arriving at the ratings, INFOMERICS analytical team has combined the financials of M/s Ispat India, Agrawal Channel Mills Private Limited, Devi Iron & Power Private Limited, Hindustan Coils Limited, Mahamaya Sponge Iron Private Limited and M/s Om Sponge referred as the Agrasen Group as these companies are closely held entities with significant ownership & control by common promoter family and have strong operational and financial linkages.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity -

The liquidity position of the group is expected to remain adequate characterized by sufficient cushion in its accruals vis-à-vis repayment obligations. Further, the group has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The utilization of working capital limits remained on the moderate side during the 12 months ended March 31, 2019. On a standalone basis the liquidity position of DIPPL is also expected to remain adequate marked by its adequate accruals vis-à-vis repayment obligations. Further, the company has adequate liquidity from its unutilized bank limits.

About the Company

Incorporated in March 2004 by the Mahamaya Group of Raipur, Devi Iron & Power Private Limited (DIPPL) is engaged in manufacturing of sponge iron. In May 2017, the company was acquired by the Agrasen Group of Raipur. DIPPL has a sponge iron capacity of 90,000 MTPA, ingot capacity of 30,000 MTPA and WHR based CPP of 8MW. Further, the company also owns an iron-ore mine, and the company has sought the prospecting license for the same.

DIPPL is governed through eight-member Board of Directors representing the family members from the Agarwal family and their relatives who look after the day to day affairs of the company with adequate support from a team of experienced professionals.

Combined Financials*

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Combined	Combined
Total Operating Income	926.80	1350.73

For the year ended* / As On	31-03-2018	31-03-2019
EBITDA	65.98	79.39
PAT	40.46	38.17
Total Debt #	129.57	158.81
Tangible Net worth	152.69	208.78
EBITDA Margin (%)	7.12	5.88
PAT Margin (%)	4.44	2.93
Overall Gearing Ratio (x) #	0.85	0.76

Note: Classification as per Infomerics' standards

**Infomerics has combined the financials of group companies as mentioned above.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

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	30.00 (including proposed limit of Rs.5.00 crore)	IVR BBB+ / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	5.40	IVR BBB+ / Stable Outlook	-	-	-
3	Short Term Fund Based Limits – Overdraft	Short Term	15.00	IVR A3+	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania

Tel: (033) 46022266

Email: hdidwania@infomerics.com

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: 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.

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 Bank Facilities – Cash Credit	-	-	-	30.00 (including proposed limit of Rs.5.00 crore)	IVR BBB+ / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	June, 2021	5.40	IVR BBB+ / Stable Outlook
Short Term Bank Facilities – Overdraft	-	-	-	15.00	IVR A3+