Press Release

M/s. Ispat India

August 05, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit	18.00	IVR BBB+ / Stable Outlook (IVR Triple B plus with Stable Outlook)	Revised from IVR BBB- /Stable
Long Term Fund Based Facilities- Term Loan	4.26 (reduced from 8.50)	IVR BBB+ / Stable Outlook (IVR Triple B plus with Stable Outlook)	Revised from IVR BBB- /Stable
Total	**22.26**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of M/s. Ispat India (II)derives comfort from the parentage of the Agrasen group and strong support from group synergy, locational advantage of the plant with 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, entity's partnership nature of constitution 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

The Agrasen group is founded by the Agrawal family of Raipur, Chhattisgarh. The group has vast experience in the steel and 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 have 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. The Agrawal family took over II in 2016 and has shown positive commitments with fund infusion to revive the operations.

Locational advantage

The manufacturing facility of Ispat India and other group entities namely, Agrawal Channel Mills Private Limited (ACML), Devi Iron & Power Private Limited (DIPL) , Hindustan Coils Limited (HCL) , Mahamaya Spong Iron Private Limited (MSIPL) and M/s. Om Sponge (OS) 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.

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 DIPL is procured by ACML, HCL and II. Moreover, under DIPL, 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

M/s Ispat India has a licensee agreement (last renewed on April 1,2019) with KL to market its products under the brand name of "Kamdhenu". As per the agreement, the firm needs to pay royalty fees amounting to Rs.200 per MT plus applicable taxes (subject to a minimum royalty of Rs.2,00,000 per month) 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, as the group is also manufacturing MS Angle, channels in Agrawal Channel Mills Pvt. Ltd and steel wires in Hindusthan Coils Ltd under the brand "Kamdhenu" 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 operation 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 and 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 of sales in its various companies resulting from increase in capacities with improved demand for 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 Mahamaya Sponge Iron Pvt Ltd (MSIPL) and M/s. Om Sponge (OS) in May, 2018 and 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 from7.12% 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. However, 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.

On a standalone basis, the total operating income of II improved with a CAGR of ~65% over the past three years with y-o-y growth of ~27% in FY19 (Prov.) 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 II improved from 1.93x as on March 31,2018 to 1.43x as on March 31,2019 (prov.) driven by scheduled repayment of term debts and accretion of profit to net worth. Further, the interest coverage ratio remained healthy at 7.16x in FY19 (prov., improved from 5.40x in FY18). Total indebtedness as indicated by TOL/TNW remained satisfactory at 1.73x 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 DIPL 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

The approach has been changed from standalone view taken at the time of last rating of M/s Ispat India to combined view, as acquisition of Devi Iron & Power Private Limited during FY18 and OM and MSIPL taken over in FY19 by the promoter group brought synergies in the operations due to common management and operational linkages between the group companies.

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 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 - Adequate

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.

About the Company

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, 2019 with Mr. Yogesh Kumar Gupta, Mr. Narendra Gupta, Mr. Navnet Gupta, Mr. Sahil Singla, Mr. Kushan Garg, Mr. Nand Kishore Agrawal, Mrs. Gayatri Agrawal, Mrs. Suman Devi Agrawal, Mrs. Pratibha Agrawal, M/s. Jai Ambey Indocem Pvt. Ltd, Mr. Vinod Kumar Singla and Mr. Tarun Kumar Gupta as partners. Mr. Vinod Kumar Singla and Mr. Tarun Kumar Gupta has recently joined the business.

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.

Combined Financials*

(Rs. crore)

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

#Subordinated Unsecured loan from the promoters and family members are treated as neither debt nor equity

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	18.00	IVR BBB+ / Stable Outlook	-	IVR BBB- / Stable Outlook	-
2.	Long Term Non-Fund Based Limits – Term Loan	Long Term	4.26 (reduced from 8.50)	IVR BBB+ / Stable Outlook	-	IVR BBB- / Stable Outlook	-

 # On standalone financials

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 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	-	-	-	18.00	IVR BBB+ / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	May, 2024	4.26 (reduced from 8.50)	IVR BBB+ / Stable Outlook