

# Infomerics Valuation And Rating Pvt. Ltd.

Press Release

## Mongia Steel Limited

November 18, 2019

### Ratings

| Instrument / Facility            | Amount<br>(Rs. crore) | Ratings   | Rating<br>Action |
|----------------------------------|-----------------------|---|------------------|
| Long Term Fund Based Limits      | 31.00                 | IVR BBB+ / Stable Outlook<br>(IVR Triple B Plus with<br>Stable Outlook) | Reaffirmed       |
| Short Term Non-Fund Based Limits | 8.00                  | IVR A2 (IVR A Two)  | Reaffirmed       |
| <b>Total</b>                     | <b>39.00</b>          |   |                  |

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The aforesaid ratings continues to derive comfort from its experienced promoters with long track record, backward integration initiatives, strategic location and integration of the manufacturing facilities, established Brand with diversified distribution network, comfortable gearing and debt protection metrics, sustained improvement in capacity utilisation, power procurement agreement with DVC . However, the ratings are constrained by volatility in the prices of raw materials and finished goods, geographical concentration risk, high competition and cyclicity in the steel industry.

### Key Rating Sensitivities

#### Upward factors

- Efficient working capital management
- Improvement in debt servicing capacity

#### Downward factors

- Decrease in Profitability
- Deterioration in overall gearing to over 1.5x

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

#### Experienced promoter with long track record

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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 four decades of experience in the steel industry. Further, MSL itself has a track record of more than twenty years in the steel industry and started manufacturing of TMT bars since 2003.

### **Backward integration initiatives**

In 2004, the promoters incorporated Santpuria Alloys Private Ltd (SAPL) to provide backward integration for MSL. SAPL is mainly involved in the manufacture of sponge iron from iron pellets. SAPL employs a kiln to melt the iron ore / pellets to manufacture sponge iron. Its entire production is consumed by MSL in its manufacturing process. The entire production of SAPL is sold to MSL. A majority of the sponge iron requirement for the MSL plant is fulfilled by the plant of SAPL.

### **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. The plants are located in close proximity to the raw material suppliers that fulfil their requirement of iron pellets, pig iron, melting scrap and coal.

### **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 16 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.

### **Comfortable gearing and debt protection metrics**

During FY19, the company has availed a term loan for financing its capacity expansion programme which resulted in marginal moderation in its leverage ratios. However, the leverage ratios continued to remain comfortable with the debt equity ratio of 0.37x and the overall gearing ratio at 0.83x respectively as on March 31, 2019. Further, the total indebtedness of the company as reflected by the TOL/TNW also continued to remain comfortable at 1.78x as on March 31, 2019. Further, the debt protection metrics for the company are also continued to

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remain comfortable in FY19. The interest coverage ratio improved from 3.97x in FY18 and stood healthy at 4.82x in FY19. Total Debt to Gross Cash Accruals as on March 31, 2019 (Audited) stood moderate at 5.40x.

### **Sustained improvement in capacity utilisation**

The capacity utilisation for the manufacturing facility MSL has improved over the last three years; from ~74% in FY17 to ~80% in FY18 and further to ~86% in FY19.

### **Power procurement agreement with DVC**

Power cost accounts for considerable proportion of expenses of around 20%-25% of the total cost of production. Mongia Group has entered into better terms with Damodar Valley Corporation for power supply. Earlier Group used to procure the electricity at Rs.4.10 per unit, which reduced from FY19 to Rs.3.45 per unit. The same is expected to reduce the power procurement cost in near term which in turn will have positive impact on the operating profitability.

### **Key Rating Weaknesses**

#### **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 increased around 27% in FY19. However, the price realisation for TMT bars also witnessed an increase of around 15% and 10% in FY18 and FY19 respectively. 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 82% of its sales in FY19. 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.

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### **High competition and cyclicity 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:** Standalone

#### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### **Liquidity – Adequate**

MSL is expected to have adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations in next three fiscals with no debt avilment programme. MSL has projected to serve repayments of Rs. 2.76 crore per year in FY21 and FY22 with the Gross cash accruals of Rs. 12.52 crore (FY20), Rs. 15.61 crore (FY21) and Rs. 17.63 crore (FY22) and further, its bank limits are utilized to the extent of ~80% indicating a moderate liquidity buffer.

#### **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 Infomerics Valuation And Rating Pvt. Ltd.

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www.infomerics.com 5 Bengal and North eastern region. The company has been able to build a network of around 600 dealers & 1000 sub dealers.

**Financials (Standalone):** The financials for FY19 is furnished below:

(Rs. crore)

| For the year ended* / As On | 31-03-2019 | 31-03-2019 |
|-----------------------------|------------|------------|
|                             | Audited    | Audited    |
| Total Operating Income      | 225.77     | 344.04     |
| EBIDTA                      | 12.56      | 15.59      |
| PAT                         | 4.27       | 5.88       |
| Total Debt *                | 30.77      | 47.67      |
| Tangible Net worth          | 49.31      | 57.19      |
| EBIDTA Margin (%)           | 5.56       | 4.53       |
| PAT Margin (%)              | 1.89       | 1.75       |
| Overall Gearing Ratio (x) * | 0.62       | 0.83       |

\* MSL has reported total income of Rs. 200.50 crore in half year FY20. (58% of the total operating income of Rs. 344.04 crore achieved in complete year FY19).

**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 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                     | 26.00                          | IVR BBB+ / Stable Outlook | IVR BBB+ / Stable Outlook (May 30, 2018) | -                                       | -                                       |
| 2.      | Long Term Fund Based Limits – Stand by line of credit | Long Term                     | 5.00                           | IVR BBB+ / Stable Outlook | IVR BBB+ / Stable Outlook (May 30, 2018) | -                                       | -                                       |
| 3.      | Short Term Non Fund Based Limits – Letter of Credit   | Short Term                    | 8.00                           | IVR A2                    | IVR A2 (May 30, 2018)                    | -                                       | -                                       |



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**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).

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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.

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**Annexure 1: Details of Facilities**

| <b>Name of Facility</b>                             | <b>Date of Issuance</b> | <b>Coupon Rate/ IRR</b> | <b>Maturity Date</b> | <b>Size of Facility (Rs. Crore)</b> | <b>Rating Assigned/ Outlook</b> |
|---|-------------------------|-------------------------|----------------------|-------------------------------------|---------------------------------|
| Long Term Bank Facilities - Cash Credit             | -                       | -                       | -                    | 26.00                               | IVR BBB+ /Stable Outlook        |
| Long Term Bank Facilities – Stand by line of credit | -                       | -                       | -                    | 5.00                                | IVR BBB+ /Stable Outlook        |
| Short Term Bank Facilities – Letter of Credit       | -                       | -                       | -                    | 8.00                                | IVR A2                          |