Press Release

Nav Durga Fuel Private Limited

October 10, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	55.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Short Term Bank Facilities – Bank Guarantee	2.00	IVR A3+ (IVR A Three plus)	Assigned
Short Term Bank Facilities – Letter of Credit	6.00	IVR A3+ (IVR A Three plus)	Assigned
Total	**63.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Nav Durga Fuel Private Limited (NDFPL) derives comfort from its experienced promoters, locational advantage, semi-integrated nature of operations and established brand. The ratings also factor in strong growth in revenues during FY17-19 with satisfactory gearing and debt protection parameters coupled with strong net worth base. However, the rating strengths are partially offset by lack of backward integration with volatility in raw material prices, intense competition and cyclicality in the steel industry.

Key Rating Sensitivities:

Upward factors

- Increase in volume sales and total operating income
- Improvement in profitability with improvement in gross cash accruals

Downward factors

- Deterioration in overall gearing to over 1.5 times
- Deterioration in profit margin and debt coverage indicators

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoter of NDFPL have around two decades of experience in trading and manufacturing of iron and steel products. While Mr. Nimish Gadodia (Director) is at the helm of affairs of the company & looking after the business development & finance functions, Mr. Deepak Kumar Sharma looks after the production and purchase functions of the company.

Locational advantage

The manufacturing facilities of NDFPL is in Raigarh, Chhattisgarh which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron and iron scrap. Further, sourcing of iron ore from Odisha and coal from nearby coal mines is not an issue. Presence in steel belt reduces the business risk to an extent.

Semi-integrated nature of operations

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. The manufactured MS billets are used to produce TMT bars. Further, to support its operations the company also has a 12MW captive power generation capacity. Semi- integrated nature of operations coupled with proximity to the source of raw materials & end user market provides a competitive edge to the company. Further, presence of coal washery also strengthens the business risk profile of the company.

Established brand

The company markets its TMT bars under the brand name of, 'SRISHTI'. The company has been able to establish its brand over the course of its operations with a focussed advertising campaign to raise brand awareness and recall. The brand is well established in the markets like UP, Chhattisgarh.

Strong growth in revenues over the years

The total operating income of the company registered a CAGR of ~60% during FY17-FY19 with a y-o-y growth of ~66% in FY19. The growth is driven by higher brand penetration leading to increase in volume sale and increase in sales realisations. However, despite increase in the scale of operations the EBIDTA margin of the company dampened from 12.54% in FY18 to 7.79% in FY19. However, the PAT margin of the company remained healthy though moderated marginally from 4.71% in FY18 to 4.29% in FY19. The company has earned healthy gross cash accruals of Rs.26.31 crore in FY19 (Rs.26.08 crore in FY18). Further, in Q1FY20 the company has achieved a net sale of Rs.101.68 crore (Rs.84.78 crore in Q1FY19).

Satisfactory financial risk profile marked by strong net worth base leading to satisfactory gearing with healthy debt protection metrics

The company has a satisfactory financial risk profile marked by its strong net worth base of Rs.205.70 crore as on March 31, 2019. The capital structure of the company remained comfortable underpinned by its strong net worth base and lower reliance on debts. The overall gearing ratio of the company remained comfortable at 0.32x as on March 31, 2019 (0.34x as on March 31, 2018). The debt protection parameters as reflected by the interest coverage ratio remained comfortable. Moreover, Total indebtedness of the company as reflected by TOL/TNW remained comfortable at 0.65x as on March 31, 2019 (0.80x as on March 31, 2018).

Key Rating Weaknesses

Lack of backward integration vis-à-vis volatility in prices

Raw material consumption is the single largest cost component for NDFPL. The company does not have any backward integration for its basic raw materials (iron ore & coal) and has to purchase the same from open market. Since, the raw material is the major cost driver (constituting about 80% of total cost of sales in FY19) and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices.

Intense competition

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including NDFPL. High share of low margin TMT bar sales constraints margins to an extent.

Cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including NDFPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the demand-supply dynamics in the real estate sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity -

The liquidity profile of NDFPL is expected to remain adequate with its satisfactory cash accruals vis a- vis its negligible debt repayment obligations and a cash and cash equivalent balance of Rs.8.15 crore as on August 31,2019. Further, the average cash credit utilisation of the company remained comfortable at ~66% during the past 12 months ended August, 2019 indicating a sufficient liquidity cushion. The company has sufficient gearing headroom due to its comfortable capital structure.

About the Company

Nav Durga Fuel Pvt Ltd (NDFPL), incorporated in February, 2004 was promoted by Mr G.S. Agarwal and the company was taken over by the Gadodia family of Odisha. The company is mainly engaged in manufacturing of sponge iron (90000MTPA), Billets (79200MTPA) and TMT bar (90000MTPA). The company also has a coal washery (300000MTPA) for beneficiation of coal and a fly ash brick manufacturing facility (4000 MTPA). The manufacturing facilities of the company are located at Raigarh, Chhattisgarh. To support its manufacturing operations the company also has a 12 MW captive power plans (7MW waste heat recovery-based power plant and a 5MW AFBC power plant).

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	268.94	447.06
EBITDA	33.73	34.84
PAT	12.68	19.23
Total Debt	62.56	66.10
Tangible Net worth	186.47	205.70
EBITDA Margin (%)	12.54	7.79
PAT Margin (%)	4.71	4.29
Overall Gearing Ratio (x)	0.34	0.32

Status of non-cooperation with previous CRA:

CARE Ratings has moved the rating of NDFPL 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 October 29, 2018.

CRISIL Ratings has moved the rating of NDFPL 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 July 24, 2019.

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	55.00	IVR BBB / Stable Outlook	-	-	-
2.	Short Term Non-Fund Based Limits – Bank Guarantee	Short Term	2.00	IVR A3+	-	-	-
3.	Short Term Non-Fund Based Limits – Letter of Credit	Short Term	6.00	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.

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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.

The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	-	55.00	IVR BBB / Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	2.00	IVR A3+
Short Term Bank Facilities – Letter of Credit	-	-	-	6.00	IVR A3+