

Press Release
Hira Steels Limited
May 08, 2023



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	105.20	ACUITE BBB Negative Downgraded	-
Bank Loan Ratings	0.50	-	ACUITE A3+ Downgraded
Total Outstanding Quantum (Rs. Cr)	105.70	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **ACUITE BBB (read as ACUITE t riple B)** from **ACUITE BBB+ (read as ACUITE t riple B plus)** and its short-term rating to **ACUITE A3+ (read as ACUITE A three plus)** from **ACUITE A2 (read as ACUITE A two)** on the Rs. 105.70 Cr bank facilities of Hira Steels Limited (HSL). The outlook is 'Negative'.

Rationale for the rating

The rating downgrade reflects Acuite's expectation of a continued moderation in its financial risk profile due to ongoing debt-funded capital expenditures. Acuite will monitor the company's decision to incur additional debt for its planned solar capacity, which will eventually be leased to the group company. Further, the recent merger with Jagdamba Power and Alloys Limited (JPAL) is not expected to result in any significant synergies as the latter has already sold off its power plants which in turn will not provide any significant cost benefit.

'Negative' outlook reflects the company's extension of loans and advances to the unrelated parties, impacting the debt coverage matrix . Additionally, the rating is constrained by the company's thin profitability margins, which are susceptible to volatility in input prices. However, the rating considers the steady business risk profile of the company, as well as the experienced management of the company. Nonetheless, the rating remains tempered by the highly commoditized and fragmented nature of the secondary steel industry, which results in intense competition and limits the company's pricing flexibility.

About the Company

Hira Steels Limited was incorporated in 1994 and is engaged in manufacturing of MS Bar, Hard Black Wire and TMT bars. The manufacturing unit is located at Raipur, Chhattisgarh with an installed capacity of 60,000 MTPA for Hard Black Wire and 120,000 MTPA for rerolled products. Presently the company is managed by Mr. Amit Kumar Agrawal.

Analytical Approach

As of January 10, 2022, Hira Steels Limited (HSL) has merged with Jagdamba Power and Alloys Limited (JPAL), and hence Acuite has taken a consolidated approach to arrive at the rating.

Extent of Consolidation

Key Rating Drivers

Strengths

Long operational track record and experienced management

The company has more than two decades of operational track record with operations commencing in 1994. The company is managed by Mr Amit Kumar Agarwal, who has two decades of experience in the iron & steel business. The extensive experience of the promoters has helped them in understanding the market dynamics & establishing strong relationships with their customers & suppliers. Acuite believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations.

Steady revenue growth

The company had witnessed improvement in the scale of operation as reflected from its revenue of Rs 780.28 Cr in FY22 as against Rs 550.64 Cr in FY21. The improvement is driven by rise in average realization and sale volume of finished goods. The company has posted revenue of Rs 558.73 Cr in 9MFY23. EBITDA margin of the company has improved to 2.59 percent in 9MFY23 vis-à-vis 1.61 percent in FY22 due to increase in average realization of finished goods and decline in power cost with the commissioning of the 15 MW captive solar plant in September 2022. Acuite believes that the scale of operation may continue to remain at the same level over the medium term, sustained by steady capacity utilization.

Efficient working capital management

The company has a low working capital requirement as reflected from its Gross Current Asset (GCA) days of 57 days in FY22 as against 77 days in FY21. Reason for low GCA days is comfortable debtor days of 13 days in FY22 as against 11 days in FY21. Inventory days stood at 13 days in FY22 as against 24 days in FY21. The efficient working capital management led to lower reliance on bank borrowings with an average utilization of 41 per cent for the last 9 months ended March, 2023. Acuite believes that maintaining efficient working capital operations is a key rating sensitivity.

Weaknesses

Expected leverage in the capital structure

The company is planning to undertake a debt-funded capex plan of Rs. 83.36 Cr in FY24 to set up a 19 MW captive solar power plant, which will be funded through a mix of debt and equity in a 2:1 ratio. This capex is likely to lead to a moderation in gearing and coverage indicators over the medium term. As of April 2023, the company has already incurred Rs. 29.98 Cr for this project, which has been funded through bank loans of Rs. 11.75 Cr and promoter's contribution of Rs. 18.23 Cr. Out of the total 19 MW, 17 MW of power will be leased out to the group company for an annual rent of approximately Rs. 11 Cr. Even though the company has a healthy networth base of Rs.112.53 Cr in FY2022 as compared to Rs.101.38 crore in FY2021, the rise in the incremental debt due to enhance capex in FY24 will lead to an elevated DEBT/EBITDA and coverage ratio, going forward. Interest coverage ratio (ICR) stood at 6.03 times in FY2022 as against 6.54 times in FY 2021. DSCR stood at 2.60 times in FY22 as against 5.87 times in FY21. Debt/EBIDTA stood at 7.77 times in FY2022 as against 5.59 times in FY 2021. Acuite believes that any unplanned debt-funded capex plan over and above this could be a key rating sensitivity factor.

Volatile and low profit margin

The company has witnessed an uneven profit trend as reflected from its EBITDA margin of 1.61 percent in FY22 as against 2.88 percent in FY21 and 1.00 percent in FY20. RoCE of the company continued to remain low during FY22 at 4.21 percent though there has been an improvement from 2.35 percent in FY21. PAT margin also stood low at 0.50 percent in FY22 because of Rs 4.12 Cr of exceptional loss (advance to supplier written off). The company has posted EBITDA margin of 2.59 percent in 9MFY23 (Provisional) due to increase in average realization of finished goods and decline in power cost with the commissioning of the 15 MW captive solar plant in September 2022.

Cyclical nature of the industry

The company's performance remains vulnerable to cyclicalities in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Indian steel sector is highly competitive due to the presence of a large number of players. The operating margin of the company is exposed to fluctuations in the prices of intermediate goods as well as realization from finished goods.

Rating Sensitivities

Sustenance of revenue growth.
Improvement in profitability margin.
Efficient working capital management

Material covenants

None

Liquidity Position

Adequate

HSL has an adequate liquidity profile as reflected from its average utilization of working capital limits which stood at 41 percent during the last 9 months ended March 2023. In addition, net cash accrual stood comfortable at Rs 7.82 Cr during FY22 as against as against long term debt repayment of Rs. 1.86 Cr over the same period. Current ratio stood at 2.10 times in FY22 as against 3.26 times in FY21. The company has modest working capital requirement as reflected from its GCA days which stood at 57 days in FY22 as against 77 days in FY21. Going forward, the net cash accruals are expected to be in the range of Rs 30-31 Cr (adjusted for Rs 40.87 Cr of exceptional items from the sale of power plant by JPAL) as against current maturity of around Rs. 18.11 Cr from FY23-FY24. Acuite expects the liquidity position of the company will remain adequate over the medium term backed by steady cash flow.

Outlook: Negative

The outlook is primarily driven by the fluctuating trend in profit margins and also expected moderation in their financial risk profile arising out of their planned debt funded capex plan. The rating may be downgraded in case of decline in profit margins and significant deterioration in their liquidity profile. Conversely, the outlook may be revised to 'Stable' in case of improvement in the financial risk profile backed by substantial rise in the profit margin.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	780.28	550.64
PAT	Rs. Cr.	3.89	1.45
PAT Margin	(%)	0.50	0.26
Total Debt/Tangible Net Worth	Times	0.77	0.43
PBDIT/Interest	Times	6.03	6.54

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Feb 2022	Bank Guarantee	Short Term	0.50	ACUITE A2 (Reaffirmed)
	Bills Discounting	Long Term	1.00	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	0.57	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Cash Credit	Long Term	30.00	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	1.90	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	3.73	ACUITE BBB+ Negative (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Term Loan	Long Term	1.60	ACUITE BBB+ Negative (Assigned)
	Cash Credit	Long Term	9.85	ACUITE BBB+ Negative (Reaffirmed)
	Cash Credit	Long Term	10.15	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Term Loan	Long Term	36.40	ACUITE BBB+ Negative (Reaffirmed)
03 Dec 2021	Term Loan	Long Term	1.90	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Cash Credit	Long Term	30.00	ACUITE BBB+ Negative (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	3.73	ACUITE BBB+ Negative (Reaffirmed)
	Proposed Term Loan	Long Term	36.40	ACUITE BBB+ Negative (Assigned)
	Cash Credit	Long Term	10.15	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	0.57	ACUITE BBB+ Negative (Reaffirmed)
	Cash Credit	Long Term	9.85	ACUITE BBB+ Negative (Reaffirmed)

	Bills Discounting	Long Term	1.00	ACUITE BBB+ Negative (Reaffirmed)
12 Nov 2021	Cash Credit	Long Term	10.15	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	1.32	ACUITE BBB+ Negative (Reaffirmed)
	Bills Discounting	Long Term	1.00	ACUITE BBB+ Negative (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	0.68	ACUITE BBB+ Negative (Reaffirmed)
		Short		
	Bank Guarantee	Term	0.50	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	9.85	ACUITE BBB+ Negative (Reaffirmed)
07 Oct 2020	Cash Credit	Long Term	9.85	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	3.19	ACUITE BBB+ (Withdrawn)
	Bank Guarantee	Short Term	0.50	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	10.15	ACUITE BBB+ Stable (Reaffirmed)
	Bills Discounting	Long Term	1.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A3+ Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.85	ACUITE BBB Negative Downgraded
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Negative Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.15	ACUITE BBB Negative Downgraded
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB Negative Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	36.40	ACUITE BBB Negative Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.29	ACUITE BBB Negative Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.91	ACUITE BBB Negative Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.60	ACUITE BBB Negative Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Anik Das Senior Manager-Rating Operations Tel: 022-49294065 anik.das@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.