# Press Release

**NR Ispat & Power Private Limited**

October 29, 2020

**Rating Reaffirmed**

| | |
|---|---|
| **Total Bank Facilities Rated*** | Rs. 51.00 Cr. |
| **Long Term Rating** | ACUITE BBB+/Stable (Reaffirmed) |
| **Short Term Rating** | ACUITE A2 (Reaffirmed) |

** Refer Annexure for details*

**Rating Rationale**

Acuité has reaffirmed the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B Plus)** and the short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 51.00 crore bank facilities of NR Ispat & Power Private Limited. The outlook is **'Stable'**.

Reaffirmation depicts almost similar performance at a standalone level as reflected from its comfortable gearing and debt protection ratio. Interest coverage of the company stood at 5.94 times in FY20 (Provisional) as against 5.67 times in FY19. Debt equity ratio continued to remain below 1 time in FY20.

Further, at the NR Group level, the EBITDA margins witnessed an improvement in FY20 (Provisional) increasing to 12.02 percent as against 7.98 percent in FY19. This improvement is driven by improved operating efficiencies due to captive consumption of sponge iron and billet within the group. The rating continues to reflect the experienced management, comfortable financial risk profile and debt protection metrics as well as efficient working capital management of the group.

NR Ispat & Power Private Limited (NR Ispat), the flagship company of the group was incorporated in 2008 and is engaged in the manufacturing of sponge iron, billet and TMT. Company has installed capacity of 60,000 MT per annum for sponge iron, 68000 MT per annum for MS billet and 40,000 MT per annum of rolling mill. The company sells TMT under the brand name Dollar gold.

Seleno Steels Limited was acquired by the NR group in FY18 and the name was changed to NRVS Steels Limited (NRVS). The company is engaged in the manufacture of sponge iron and has an installed capacity of 180,000 MT per annum. The company has undertaken capex for setting up a billet unit and captive power plant which is expected to complete by Q3FY21.

NR TMT India Pvt Ltd (NR TMT), another group company, has a billet unit with a capacity of 115200 MT per annum. In FY19, company had added a rolling mill with an installed capacity of 110000 MT per annum. The company sells TMT under the brand name NR TMT.

## Analytical Approach:

Acuite has taken a consolidated view of NR Ispat & Power Private Limited, NR TMT India Private Limited and NVRS Steels Limited (Formerly Seleno Steels Limited) as all the 3 companies are in the same line of business, common management and have strong operational and financial linkages (NR TMT India procures sponge iron from NRVS Steels Limited) and NR Ispat & Power Private Limited holds around 42 percent of shares in NRVS Steels Limited. The group herein is referred to as NR Group.

## Key Rating Drivers:

### Strengths

**Experienced management and integrated operation in steel sector**

The NR group is promoted by Agrawal family of Raigarh (Chattisgarh). The group is managed by Mr. Sanjay Agarwal, who has two decades of experience in the steel business. The group has integrated operations with capacities to produce sponge iron, steel billets and long products across three companies – NR Ispat, NR TMT and NRVS. The aggregate installed capacity of the NR Group is 240,000 MT of sponge iron, 183,200 MT of billets and 150,000 MT of rolled steel products. The sponge iron requirement of NR TMT is met by NRVS.

The latter has undertaken a capex for setting up a billet unit with an installed capacity of 51600 MT per annum and a power plant of 15 MW which is expected to be commercialized by Q3FY21. The project cost for this ongoing capex plan is Rs 55 Cr which is funded through a mix of secured and unsecured debt. The ongoing capex will help the group to improve its scale of operation in medium term and further improve their operating efficiencies.

**Healthy financial risk profile**

The financial risk profile of the group is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The net worth of the group stood at Rs.156.66 Cr in FY2020 (Provisional) as compared to Rs.127.39 Cr in FY2019. Acuité has treated unsecured loans of Rs 4.86 Cr in NRVS Steel as part of networth as the amount is subordinated to debt. The gearing of the group stood at 1.00 times as on March 31, 2020(Provisional) as compared to 0.82 times as on March 31, 2019 due to debt-led capex plan. The total debt of Rs.156.60 Cr in FY2020(Provisional) consists of long-term debt of Rs.80.84 Cr, short-term loan of Rs. 35.58 Cr and unsecured loan from promoters of Rs. 28.56 Cr. Interest coverage ratio (ICR) stood strong at 5.95 times in FY2020(Provisional) as against 4.91 times in FY 2019. The debt service coverage ratio (DSCR) also stood comfortable at 2.97 times in FY2020(Provisional) as against of 1.74 times in FY2019. This improvement is driven by rise in profitability margin. The net cash accruals against total debt (NCA/TD) stood at 0.34 times in FY2020(Provisional) as compared to 0.38 times in previous year. Acuité believes the financial risk profile of the group will remain comfortable over the medium term backed by steady accruals and in the absence of any large debt-funded capex plan,

**Improved profitability at group level**

The group had witnessed significant improvement in profitability margin as EBITDA margin stood at 12.02 percent in FY20(Provisional) as against 7.98 percent in FY19. This improvement is on account of increase in captive consumption of billet and sponge iron which led to a reduction in overall raw material cost. Moreover, RoCE of the group also stood comfortable at 18.34 percent in FY20 (Provisional). Acuite expects profitability of the group will remain at a comfortable level in the medium term as there will addition of 15 MW captive power plant, thereby leading to further saving in power cost.

## Weaknesses

**Cyclical nature of the industry**

The group performance remains vulnerable to cyclicality 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 group is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods.

**Continuing debt funded capital expenditure**

The NR group has continuously incurred capital expenditure in the past 2-3 years ended FY'2020. The capex has been largely to integrate operations within the group to ensure better synergies. The group has incurred capex of around Rs.160 Cr in the past 3 years enhancing their capacities in sponge iron, billets and captive power plant. The said capex have been funded through an equitable mix of own funds and external borrowings. However, going forward, the group would focus primarily on consolidating their incremental capacities to enjoy sustained profit margins. Acuité believes that any unplanned debt funded capex plan would be a key rating sensitivity factor.

## Rating Sensitivity

- Sustainability in profitability margins
- Substantial deterioration in financial risk profile

## Material Covenant

None

## Liquidity Position: Adequate

The NR group has adequate liquidity reflected from low utilization of working capital limits ranging from 56 percent to 68 percent during last 12 months ended September 2020. In addition, group has healthy net cash accrual of Rs. 53.27 Cr during FY20 as against current maturity of 11.52 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 50-Rs55 Cr as against current maturity of around Rs.12 Cr from FY21-FY23. Current ratio stood at 1.30 times during FY20 as against 1.12 times in FY19. The working capital requirement of the group stood modest level as reflected from GCA days of 75 days as on 31 March 2020. The group has maintained positive cash flow from operation in FY20. Acuite believes the liquidity position of the group will remain adequate, backed by steady cash flow and accrual over the medium term.

**Outlook: Stable**

Acuite believes that NR group will benefit over the medium term from the promoters vast experience in the steel industry. The outlook may be revised to 'Positive' if NR group is able to improve to financial risk profile along with sustainability in the profitability margin. Conversely, the outlook may be revised to 'Negative' if the group witnessed a significant deterioration in financial risk profile or liquidity profile due to unplanned debt-led capex plan.

**About the Rated Entity - Consolidated**

| | Unit | FY20 (Provisional) | FY19 (Actual) | FY18 (Actual) |
|---|---|---|---|---|
| Operating Income | Rs. Cr. | 602.22 | 681.43 | 333.44 |
| PAT | Rs. Cr. | 31.24 | 19.52 | 8.77 |
| PAT Margin | (%) | 5.19 | 2.86 | 2.63 |
| Total Debt/Tangible Net Worth | Times | 1.00 | 0.82 | 0.63 |
| PBDIT/Interest | Times | 5.95 | 4.91 | 4.19 |

**About the Rated Entity - Standalone**

| | Unit | FY20 (Provisional) | FY19 (Actual) | FY18 (Actual) |
|---|---|---|---|---|
| Operating Income | Rs. Cr. | 279.58 | 321.76 | 218.49 |
| PAT | Rs. Cr. | 12.88 | 9.68 | 5.58 |
| PAT Margin | (%) | 4.61 | 3.01 | 2.55 |
| Total Debt/Tangible Net Worth | Times | 0.57 | 0.69 | 0.69 |
| PBDIT/Interest | Times | 5.94 | 5.67 | 3.93 |

**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
Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
Consolidated - https://www.acuite.in/view-rating-criteria-60.htm

**Note on complexity levels of the rated instrument**

https://www.acuite.in/view-rating-criteria-55.htm

**Rating History (Upto last three years)**

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings / Outlook |
|---|---|---|---|---|
| 13 January 2020 | Cash Credit | Long Term | 26.9 | ACUITE BBB+/Stable (Reaffirmed) |
| | Term loan | Long Term | 16.45 | ACUITE BBB+/Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 2.50 | ACUITE A2 (Reaffirmed) |
| | Proposed fund based | Long Term | 5.15 | ACUITE |

| | | | | |
|---|---|---|---|---|
| | limit | | | BBB+/Stable (Assigned) |
| 26-September - 2019 | Cash Credit | Long Term | 26.90 | ACUITE BBB+ Issuer not co-operating* |
| | Term loan | Long Term | 21.60 | ACUITE BBB+ Issuer not co-operating* |
| | Letter of Credit | Short Term | 2.50 | ACUITE A2 Issuer not co-operating* |
| 10- July-2018 | Cash Credit | Long Term | 26.90 | ACUITE BBB+/Stable (Assigned) |
| | Term loan | Long Term | 21.60 | ACUITE BBB+/Stable (Assigned) |
| | Letter of Credit | Short Term | 2.50 | ACUITE A2 (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue | Ratings/Outlook |
|---|---|---|---|---|---|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 26.90 | ACUITE BBB+/Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | April 2023- March 2024 | 14.26 | ACUITE BBB+/Stable (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE A2 (Reaffirmed) |
| Proposed fund based limit | Not Applicable | Not Applicable | Not Applicable | 7.34 | ACUITE BBB+/Stable (Reaffirmed) |

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**About Acuité Ratings & Research:**
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