Press Release

NR Ispat & Power Private Limited

June 21, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)

* *Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** on the Rs. 10.00 Cr bank facilities of NR Ispat & Power Private Limited. The outlook is **'Stable'**.

The rating reflects NR group's strong operational performance along with an improving financial risk profile. The group has registered a strong revenue growth in FY21 driven by the rise in average realization of both finished and intermediate products. The rating also factors in the group's healthy financial risk profile marked by sound net worth and conservative capital structure. These rating strengths are partially offset by cyclical nature of the steel industry. In addition, the group has undertaken a debt funded capital expenditure programme which is expected to lead to a slight moderation in their debt coverage and leverage indicators in the near term.

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. The company has installed capacity of 60,000 MT per annum for sponge iron, 96,000 MT per annum for MS billet, 96,000 MT per annum of rolled steel products and 8 MW of captive power plant. The company sells TMT under the brand name 'Dollar Gold'.

About the group

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 billet. The company has installed capacity of 180,000 MT per annum for sponge iron. Recently in FY21 the company has added billet capacity of 51600 MT per annum along with 15 MW captive power plant. Moreover the company has undertaken a capex for setting up a rolling mill with an installed capacity of 150,000 MT per annum which is expected to be complete by Q3FY22.

NR TMT India Pvt Ltd (NR TMT) was incorporated in 2010. The company has a billet unit with a capacity of 113,400 MT per annum. In FY19, company had added a rolling mill with an installed capacity of 110,000 MT per annum. The company sells TMT under the brand name NR TMT.

NR Steel and Ferro Private Limited(NR Steel) was incorporated in August 2020. The company has undertaken a greenfield project to set up a manufacturing unit that will produce pig iron and billet. The proposed installed capacity for pig iron division is 164,000 MT per annum and 164,160 MT per annum for billet division. The proposed unit is expected to be operational by Q4FY22.

All manufacturing units are located in Raigarh, Chhattisgarh.

Analytical Approach:

Acuite has taken a consolidated view of NR Ispat & Power Private Limited (NR Ispat), NR TMT India Private Limited(NR TMT) and NVRS Steels Limited(NVRS), NR Steel and Ferro Private Limited(NR Steel) as all the 4 companies are in the same line of business, share a common management and have strong operational and financial linkages (NR TMT India procures sponge iron from NRVS) and NR Ispat & Power Private Limited hold around 42 percent of shares in NRVS Steels Limited. In addition, NR Ispat and NR TMT hold around 61 percent stake in NR Steel. The group herein is referred to as NR Group.

Key Rating Drivers:

Strengths

Integrated operation in steel sector and healthy scale of operation

The NR group is promoted by the 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, 261,000 MT of billets and 206,000 MT of rolled steel products. The sponge iron requirement of NR TMT is met by NRVS. In FY21, NRVS has added 51,600 MT of billet capacity and 15 MW of captive power plant which is operational since November 2020.In FY22, NVRS will continue to incur capex for addition of 150,000 MT of rolling mill. The project cost for this ongoing capex plan is Rs 41 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. The scale of operation of the group had witnessed an improvement as reflected from its revenue of Rs 812 Cr in FY21(Provisional) as against Rs 598 Cr in FY20. The improvement is driven mainly by the increase in average realization of both finished and intermediate goods. Acuité believes the scale of operation will improve over medium term backed by rise in capacity utilization of newly added billet unit and addition of rolling mill.

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.188.63 Cr in FY2021 (Provisional) as compared to Rs.147.41 Cr in FY2020.The gearing of the group stood at 0.88 times as on March 31, 2021(Provisional) as compared to 1.09 times as on March 31, 2020. TOL/TNW stood at 1.18 times in FY21(Provisional) as against 1.37 times in FY20.The total debt of Rs.166.34 Cr in FY2021(Provisional) consists of long-term debt of Rs.120.62 Cr, unsecured loan from promoters of Rs. 29.54 Cr and short-term loan of Rs. 16.18 Cr. Interest coverage ratio (ICR) stood strong at 7.37 times in FY2021(Provisional) as against 5.76 times in FY 2020. The debt service coverage ratio (DSCR) also stood comfortable at 2.51 times in FY21(Provisional) as against 2.70 times in FY2020. The improvement in interest coverage is driven by rise in absolute EBITDA backed by increased turnover levels. The net cash accruals against total debt (NCA/TD) stood at 0.41 times in FY21(Provisional) as compared to 0.29 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 comfortable profit margin even though they might witness some moderation in FY'22 due to the ongoing capex in NRVS Steel and NR Steel.

Stable profitability margin

The group has reported steady profit margins both at the operating and net level historically. The operating margin of the group stood at 10.98 percent in FY21(Provisional) as compared to 11.66 percent in FY20. The profit after tax (PAT) margins of the group stood at 4.61 percent in FY21(Provisional) as against 4.16 percent in the preceding year. The integrated operation has helped the group to maintain a comfortable profit margin. Acuite expects the profitability margin of the group will improve in medium term backed by addition of a 15 MW captive power plant, which will help to save the power cost.

Efficient working capital management

The group has a low working capital requirement as reflected from its Gross Current Asset (GCA) days which stood at 81 days in FY21(Provisional) as against 77 days in FY20. Reason for low GCA days is comfortable debtor days of 8 days in FY21. Inventory days stood at 40 days in FY21 as against 45 days in FY20. Acuité believes the working capital intensity will remain at similar levels over the medium term.

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.

Near term capex plans to increase debt levels

The group has undertaken a large debt funded Greenfield project in NR Steel to set up a pig iron and billet manufacturing facility in Chhattisgarh. The project cost for upcoming facility is Rs 112 Cr which will be funded through a mix of debt and equity in 4:1 ratio. The financial closure for the said project is yet to be achieved. The promoters have infused around Rs. 9.8 Cr into the project in the form of equity share capital. The proposed facility is likely to be operational by Q4FY22.Acuité believes the coverage and leverage ratios of the group will witness slight moderation over the medium term because of the rise in the debt levels.

Rating Sensitivity

- Timely completion of planned capital expenditure
- Sustainability in profitability margins
- Healthy revenue growth

Material Covenant

None

Liquidity Position: Adequate

The NR group has adequate liquidity reflected from low utilization of working capital limits ranging from 51 percent to 58 percent during last 12 months ended May 2021. In addition, group has healthy net cash accrual of Rs. 67 Cr during FY21(Provisional) as against current maturity of 24.88 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 80-Rs90 Cr as against current maturity of around Rs.38 Cr from FY22-FY24. Current ratio stood at 2.01 times during FY21(Provisional) as against 1.42 times in FY20. The working capital requirement of the group stood efficient level as reflected from GCA days of 81 days as on 31 March 2021. The group has maintained positive cash flow from operation in FY21. Acuite believes the liquidity position of the group will remain adequate, backed by steady accruals 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 strengthen the 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 any significant time or cost overruns in their planned capital expenditure.

About the Rated Entity - Consolidated

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	812.40	598.17
PAT	Rs. Cr.	37.43	24.88
PAT Margin	(%)	4.61	4.16
Total Debt/Tangible Net Worth	Times	0.88	1.09
PBDIT/Interest	Times	7.37	5.76

About the Rated Entity - Standalone

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	299.82	279.58
PAT	Rs. Cr.	14.40	9.58
PAT Margin	(%)	4.80	3.43
Total Debt/Tangible Net Worth	Times	0.34	0.58
PBDIT/Interest	Times	7.07	5.79

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)

***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	10.00	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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