

Press Release

Niros Ispat Private Limited

OCTOBER 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 86.00 Cr.
Long Term Rating	ACUITE BBB- Outlook: Stable
Long Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 86.00 crore bank facilities of Niros Ispat Private Limited (NIPL). The outlook is '**Stable**'.

NIPL is a Bhilai-based company incorporated in 2001 by Raipur-based Agarwal and Goyal family. The promoters have holding in NIPL through Raipur Loha Private Limited, Gangour Agencies Private Limited and Lingaraj Food & Beverages Private Limited. The day to day operations of the company is managed by Mr. Anil Kumar Agarwal, Mr. Ashish Kumar Goyal and Mr. Ashish Kumar Agarwal.

NIPL is engaged in manufacturing of coal based sponge iron, MS ingots, MS billets and steel strips. The manufacturing facility is located in Bhilai (Chhattisgarh) with 97,500 TPA capacity for sponge iron, 60000 TPA for MS billets and 90000 TPA for steel strips (rolling mill). It has also set-up 8 MW power plant for captive consumption. NIPL has integrated operations wherein it manufactures sponge iron which is then used for the production of billets and the entire MS billet production is used in the rolling mill to produce steel strips. The company presently sells its products to dealers and steel pipe manufacturers.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Niros Ispat Private Limited for arriving at the rating.

Key Rating Drivers:

Strengths

- Established track record of operation and experienced management**

NIPL has established presence in the iron and steel industry for the more than a decade. NIPL is also part of Lingaraj group which is an integrated steel player based in Raipur (Chhattisgarh). The management of the company collectively possess more than two decades of experience in the steel manufacturing industry. The established track record of operations and experienced promoters has helped the company to maintain long standing relations with its suppliers and customers.

The company has reported moderate growth in revenue as the operating income stood at Rs.280.42 crore in FY2018 (Provisional) as against Rs.210.14 crore in the previous year. Further, as informed by the management, NIPL has reported operating income of Rs.160.00 crore during April, 2018 to July, 2018 and has pending orders worth Rs.50.00 crore in hand. The growth during FY2017-18 can be attributed to the commencement of rolling mill operations in November, 2017 which contributed around 27 percent in the total revenue for the year. The company is presently undertaking to set-up a pipe manufacturing plant which will further diversify its product profile. This will not only lead to revenue growth but also better improvement in profitability. Acuite believes that the business risk profile of the company will continue to strengthen on the back of its management's extensive experience in the iron and steel industry and continuous diversification in the product profile.

- **Integrated of operations**

NIPL has production facility which is fully integrated with complete value chain from iron ore to steel strip. It is equipped with direct reduced iron kilns for sponge iron, furnace melting division for MS Billets, rolling mill for steel strip production with automated direct hot billet feeding for fuel conservation. NIPL has installed continuous casting machine (CCM) in its SMS division and rolling mill. Next to iron ore and coal, power / fuel cost is major expense in the production process. For which NIPL is equipped with 8 MW captive power plant using waste heat recovery boilers and fluidized bed boilers. This not only reduces power cost but also reduces the Green House gas emissions. The integrated operations are expected to fetch better realisation for the products sold by NIPL.

- **Moderate financial risk profile**

NIPL's financial risk profile is moderate marked by healthy adjusted tangible net worth, moderate adjusted gearing and modest debt protection measures. The financials risk profile of the company is moderate marked by healthy adjusted net worth at Rs.103.11 crore as on 31 March, 2018 (Provisional) as against Rs.93.85 crore in the previous year. For arriving at the adjusted tangible net worth, Acuite has considered the preference share capital of Rs.6.66 crore as part of equity as same is redeemable not later than 20 years from the date of allotment i.e. 2014 along with unsecured loan of Rs.32.29 crore from related parties which is subordinated to bank debt. The company follows conservative debt policy wherein the adjusted gearing stood at 0.65 times as on March 31, 2018 (Provisional) as against 0.69 times in the previous year. The total debt stood at Rs.67.09 crore as on March 31, 2018 (Provisional) includes long term borrowing of Rs.13.63 crore, working capital limit of Rs.40.88 crore and unsecured loan from directors of Rs.12.58 crore.

Further, the current year growth in revenue along with profitability has led to the improvement in the coverage indicators of the company as the interest coverage ratio (ICR) stood at 1.76 times and debt service coverage ratio (DSCR) at 1.49 times for FY2018 (Provisional) as against 1.49 times and 0.97 times in the previous year. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.11 percent as on 31 March, 2018 (Provisional) as against 0.98 percent in the previous year. The promoters have supported the cash flows with timely infusion of funds in the company in the form of unsecured loans.

Going forward, Acuite expects the financial risk profile of the company to improve on account of improvement in net cash accruals and repayment of external borrowings.

Weaknesses

- **Working capital intensive nature of operations**

The operating cycle of the company is stretched as the Gross Current Assets (GCA) stood at 150 days in FY2018 (Provisional) as against 163 days in the previous year. The stretched GCA days are due to the high inventory of 104 days in FY2018 (Provisional) as against 125 days in the previous year along with high amount of advance paid to the suppliers. The company maintains high amount of raw material (iron ore and coal). The company also pays high amount of advance to suppliers. Further, the liquidity position of the company is marginally stretched as the average working capital limit utilisation stood at around 90 percent for the last six months ended as on 31 July, 2018.

- **Susceptibility of profitability to fluctuations in the steel prices and raw material prices**

The margins of the company are susceptible to volatility in commodity prices i.e. steel, iron ore and coal. The raw material cost constitutes around 81.18 percent in FY2018 (Provisional) as against 81.58 percent of the total sales in FY2017. Any change in the commodity prices due to import pressure and over supply is likely to impact the profitability of the company.

- **Susceptibility of the operating performance to the steel cycle**

NIPL operates in a highly competitive steel industry thereby putting pressure on capacity utilisation and pricing power. In addition, the industry is reeling under the pressure of cheaper imports. Slowdown in demand and threat of cheaper imports are leading to the industry players piling up inventory or operating at low margins. Further, the steel industry is highly cyclical and generally follows economic and industrial conditions both worldwide and in regional area.

Outlook: Stable

Acuite believes that NIPL will maintain 'Stable' outlook over the medium term from its integrated operations and the extensive experience of the management in the iron and steel industry. The outlook may be revised to 'Positive' in case the company registers substantial and sustained increment in revenue and profitability while effectively managing its operating cycle. The outlook may be revised to 'Negative' with lower than expected revenue and profit margins, or deterioration in the working capital management leading to deterioration in liquidity and financial risk profile of the company.

About the Rated Entity – Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	280.42	210.14	209.79
EBITDA	Rs. Cr.	22.51	16.71	17.42
PAT	Rs. Cr.	1.97	0.70	0.25
EBITDA Margin	(%)	8.03	7.95	8.30
PAT Margin	(%)	0.70	0.33	0.12
ROCE	(%)	9.30	8.58	8.68
Total Debt/Tangible Net Worth	Times	0.65	0.69	0.76
PBDIT/Interest	Times	1.76	1.49	1.39
Total Debt/PBDIT	Times	2.94	3.65	3.63
Gross Current Assets (Days)	Days	150	163	177

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

CARE, vide its press release dated February 27, 2018 had denoted the rating of Niro's Ispat Private Limited as 'CARE BB-/CARE A4; ISSUER NOT COOPERATING; on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <http://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.06	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	11.94	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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