Press Release

Mashiva Steel and Alloys LLP

December 23, 2019

Rating Upgraded

Total Bank Facilities Rated	Rs.17.50 crore (Enhanced from Rs.13 crore)
Long Term Rating	ACUITE B+/Stable (Upgraded from ACUITE B)

 # Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating of **'ACUITE B+' (read as ACUITE B plus)** from **'ACUITE B' (read as ACUITE B)** on the Rs.17.50 crore bank facilities of Mashiva Steel and Alloys LLP. The outlook is **'Stable'**.

Reason for upgrade

The rating upgrade is on account of stabilization of operations and ramp up in revenue despite being in the initial stage of operations. Mashiva Steel and Alloys LLP commenced their operations in November 2018 and have registered revenues of Rs.94.33 crore for a period of 5 months in FY 19. Moreover, the firm has achieved revenues of Rs.114.96 crore till Sep, 2019 (provisional) and improved profit margins, which will lead to healthy net cash accruals in the near future.

Mashiva Steel and Alloys LLP (MSAL), incorporated in 2017, is a Raigarh based limited liability partnership firm which manufactures billets. The entity is promoted by Mr. Surinder Kumar Kansal, Mr. Rajinder Bansal, Mr. Ajay Bansal, Mr. Rajat Garg and Mr. Deepak Kansal and commenced its operations from November 2018 with a billet manufacturing unit which has an installed capacity of 60000 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MSAL to arrive at the rating.

Key Rating Drivers

Strengths

- **Stabilisation of operations and expected improvement in net cash accruals**

Mashiva Steel and Alloys LLP commenced their operations in November 2018 and has registered revenues of Rs.94.33 crore in FY 19. The firm has been operating at around 50 per cent capacity in FY2019 which increased to around 67 per cent for period of six months ended September 2019. Moreover, the firm has achieved revenues of Rs.114.96 crore till Sep, 2019 (provisional) and improved profit margins, which will lead to healthy net cash accruals in the near future.

- **Efficient working capital management**

The operations are working capital efficient marked by low gross current asset days (GCA) of 45 as on 31 March, 2019. This is mainly on account of low debtor days of 11 and low inventory days of 24 as on 31 March, 2019. As a result, the firm has low utilization of its bank limits at an average of ~ 29 per cent for the last eleven months ended November 2019. Hence, Acuité expects the working capital management to remain efficient over the medium term on account of the low inventory levels maintained by the company and limited credit period extended to its customers.

Weaknesses

• Initial stage of operations

The operations of the company have commenced from November 2018 and the company reported revenues of around Rs.94 crore in its first year of operations. The current financial year (FY'20) would be the first full year of operations. Sustainability of growth in their scale of operations and improvement in profitability margins would remain a key credit monitorable.

• Intense competition and inherent cyclical nature of steel industry

MSAL is exposed to intense competition in steel sector due to the presence of a large number of unorganized players on account of low entry barriers with little technology intensity and limited differentiation in end products. Demand for steel products primarily comes from the construction and infrastructure sectors. Thus, MSAL's business risk profile is exposed to the inherent cyclicality in these sectors.

Rating Sensitivity

- Sustenance of efficient working capital management
- Improvement in turnover and profitability margins

Material Covenants

No

Liquidity position: Adequate

MSAL has adequate liquidity position. The net cash accruals are expected to be sufficient in order to service its long term debt obligations. The cash accruals of MSAL are believed to be in the range of 7-11 crore during 2020-22 as against maturing debt obligation of Rs.1.1 Crore each year. The company's efficient working capital operations are marked by low gross current asset (GCA) days of 45 in FY 2019 backed by low inventory days of 24 and debtor days of 11 in FY 2019. As a result, the firm has low utilization of its bank limits at an average of ~ 29 per cent for the last eleven months ended November 2019. The company maintains cash and bank balances of Rs.0.09 crore as on March 31, 2019. The current ratio of the company stands at 1.04 times as on March 31, 2019. The firm is going to undertake a capex in FY20 of around Rs.7 crores which is expected to be funded from own sources. Hence, Acuité believes that the liquidity of Mashiva Steel and Alloys LLP is likely to remain adequate on account of no huge repayments over the near future and better accruals.

Outlook: Stable

Acuité believes that MSAL's outlook will remain 'Stable' over the near term due to their stabilization of operations and efficient working capital management. The outlook may be revised to 'Positive' in case of further improvement in revenues which lead to further improvement in net cash accruals of the company. The outlook may be revised to 'Negative' if the profit margins continue to be in low range resulting to lower than anticipated accruals which would eventually impact the firm's liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)
Operating Income	Rs. Cr.	94.33
PAT	Rs. Cr.	0.24
PAT Margin	(%)	0.25
Total Debt/Tangible Net Worth	Times	0.60
PBDIT/Interest	Times	2.61

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria
- Default Recognition -https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
06-Feb-2019	Term Loan	Long Term	5.50	ACUITE B/Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE B/Stable (Assigned)

#Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE B+/Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/Stable (Assigned)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 shubham.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile ACUITE Ratings Limited) is a full-service Credit Rating

Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.