

Press Release

Mashiva Steel And Alloys LLP

March 16, 2021

Rating Upgraded & Assigned



Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	ACUITE BB-/Stable (Upgraded & Assigned)

* Refer Annexure for details

Rating Rationale

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

The rating upgrade is on account of overall improvement in the business and financial risk profile of the firm. The turnover and profitability levels of the firm have increased substantially in FY'20 and the trend is likely to continue over the medium term. The financial risk profile of the firm has also witnessed improvement with continuous increasing networth, improvement in gearing and healthy debt protection metrics.

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

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of MSAL while arriving at the rating.

Key Rating Drivers:

Strengths

Improving scale of operation coupled with moderate profitability margin

The revenue of the firm stood healthy at Rs.212.49 crore in FY2020 as compared to Rs.94.33 crore in the previous year. This improvement in revenue of the firm is mainly on account of increase in capacity utilization during FY2020. The firm has achieved sales of around Rs.177.55 crore till 31st December'20 (Prov.).

The operating profitability margin of the firm has improved to 3.55 per cent in FY2020 as compared to 2.32 per cent in the previous year. This improvement in operating profitability margin is on account of decrease in price of sponge iron during the period. The net profitability margin of the company stood comfortable at 1.46 per cent in FY2020 as compared to 0.25 per cent in the previous year.

Efficient working capital management

The firm has efficient working capital management marked by comfortable gross current asset (GCA) days of 13 days in FY2020 as compared to 45 days in the previous year. The inventory holding period of the firm stood comfortable at 8 days in FY2020 as compared to 24 days in the previous year. The debtor days of the firm also stood comfortable at only 1 day in FY2020 as compared to 11 days in the previous year.

Weaknesses

Moderate financial risk profile

The financial risk profile of the firm is marked by moderate net worth, high but improving gearing and healthy debt protection metrics. The net worth of the firm stood moderate at Rs.9.82 crore in FY 2020 as compared to Rs 6.53 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the firm stood at 1.90 times as on March 31, 2020 as against 3.13 times as on March 31, 2019. This improvement in gearing is mainly on account of improvement in networth and repayment of unsecured loan of the firm during the period. Interest coverage ratio (ICR) is strong and stood 7.41 times in FY2020 as against 2.61 times in FY 2019. The debt service coverage ratio (DSCR) of the firm also stood healthy at 2.91 times in FY2020 as compared to 2.50 times in the previous year. The net cash accruals to total debt (NCA/TD) stood

comfortable at 0.28 times in FY2020 as compared to 0.07 times in the previous year. Going forward, Acuité believes the financial risk profile of the group will improve backed by no major debt funded capital expenditure plan over the medium term along with steady cash accruals.

Limited track record of operation

The operation of the firm has commenced from November 2018 and FY2020 was a full year of operation by the firm. Acuité believes sustainability of growth in their scale of operations and improvement in profitability margins would be remaining a key credit monitorable.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by healthy net cash accruals of Rs.5.26 crore as against Rs.1.31 crore long term debt obligations in FY2020. The cash accruals of the firm are estimated to remain in the range of around Rs. 5.71 crore to Rs. 7.70 crore during 2021-23 as against Rs. 1.31 crore of long term debt obligations in FY2021, and Rs.2.15 crore of long term obligations in FY2022 and in FY2023, respectively. Moreover, the efficient working capital management of the firm is marked by Gross Current Asset (GCA) days of 13 days in FY2020. The bank limit of the firm has been ~27 percent utilized during the last six months ended in February 2021. However, the current ratio of the firm stood low at 0.71 times in FY2020. Moreover, the firm has availed the covid emergency fund of Rs.2.50 crore. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. The firm has also availed the loan moratorium till August 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

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 firm. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	212.49	94.33
PAT	Rs. Cr.	3.10	0.24
PAT Margin	(%)	1.46	0.25
Total Debt/Tangible Net Worth	Times	1.90	3.13
PBDIT/Interest	Times	7.41	2.61

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>

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
23-Dec-2019	Term Loan	Long Term	5.50	ACUITE B+/Stable (Upgraded)
	Cash Credit	Long Term	8.00	ACUITE B+/Stable (Upgraded)
	Proposed Bank Facility	Long Term	4.00	ACUITE B+/Stable (Assigned)
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 (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB-/Stable (Upgraded)
Term Loan	August 2018	11%	March 2024	3.00	ACUITE BB-/Stable (Upgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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