

Press Release

Maa Kudargarhi Steels Private Limited (MKSPL)

March 11, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 55.26 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs.55.26 crore of bank facilities of Maa Kudargarhi Steels Private Limited (MKSPL). The outlook is '**Stable**'.

MKSPL was started in 2004 as a Raipur(Chhattisgarh) based company by Anil Kumar Agarwal and Sunil Kumar Agarwal. The company commenced commercial operations in 2006 with a rolling mill of 16,000 tons per annum (tpa). The current capacity of their rolling mill is 250,000 tpa which has been enhanced from 100,000 tpa in FY'2018. The company has tied up with Kamdhenu Limited to produce and sell TMT Bars under the brand name of 'Kamdhenu'. The company is now selling its entire produce under the brand name of 'Kamdhenu.' MKSPL is also engaged in manufacture of binding wire with a capacity of 6,000 tpa. The company is into trading of bauxite and MS billets.

Analytical Approach:

For arriving at the rating, Acuite has considered standalone financial and business risk profile of MKSPL.

Key Rating Drivers:

Strengths

Experienced management

The directors, Mr. Anil Kumar Agarwal and Mr. Sunil Kumar Agarwal have more than 15 years of experience in the iron and steel industry which has helped the company to establish comfortable relationship with customers as well as with the suppliers.

Healthy financial risk profile

MKSPL's healthy financial risk profile is marked by healthy net worth of Rs.49.72 crore in FY2018, an increase from Rs.34.81 crore in FY2017, mainly on account of retention of current year profit and infusion of unsecured loans treated as quasi equity. Acuite has treated the unsecured loan from promoters amounting to Rs.12.39 crore as quasi equity as the management has undertaken to maintain the same in the business over the medium term. The gearing of the company stands moderate at 1.32 times in FY2018, an increase from 1.23 times in FY2017. The total debt of Rs.65.60 crore consists of long term debt of Rs.29.42 crore, short term debt of Rs.36.18 crore. The interest coverage ratio (ICR) of the company stands comfortable at 2.27 times in FY2018 as compared to 1.82 times in the previous year. Debt service coverage ratio (DSCR) of the company stands comfortable at 1.55 times in FY2018 as compared to 1.24 times in previous year. Net cash accrual to total debt stands comfortable at 0.13 times in FY2018 as compared to 0.09 times in the previous year. Going forward, the financial risk profile is expected to improve as the company has no debt funded capex plans.

Established association with Kamdhenu Limited with wide distribution network

MKSPL has been associated with Kamdhenu Limited and sells TMT bars under the brand name of 'Kamdhenu'. The company pays royalty to Kamdhenu Limited for selling under their brand. Currently, MKSPL is one of the largest manufacturers of Kamdhenu TMT with exclusive coverage in Chhattisgarh. The company has penetrated into newer geographies such as Maharashtra and Madhya Pradesh from FY'2018. The company has a wide distribution network consisting of around 550 distributors/dealers in its area of operation.

Acuite believes that the business risk profile of the company would remain strong over the medium term backed by its long standing relation with Kamdhenu Limited.

Increasing trend of revenue

Revenue increased to Rs.537.26 crore in FY2018 from Rs.203.64 crore in FY2017. The rise is on account of increase in both sales volume and realisation per unit. MKSPL sold 147492 MT in FY2018 compared to 67155 MT in FY2017. Also during the current year, the company booked revenue of Rs.824.57 crore till 31 December, 2018 (Provisional). The increase in the revenues could also be attributable to its revenues from sale of TMT bars on account of increase in their current capacity to 250000 MTPA from 100000 MTPA. Moreover, realisation per MT has increased to around Rs.39737 per MT as on 31 December, 2018 from around Rs.33411 per MT on 31 March, 2018.

Weaknesses

Moderate profitability

The operating profit margin of the company stood moderate at 3.25 per cent in FY2018 as compared to 4.97 per cent in the previous year. The deterioration the operating margin is mainly on account of increase of raw material price and compromise on profitability to gain a foothold on new geographies. The net profitability margin also stood moderate at 0.66 per cent in FY2018 as compared to 0.71 per cent in the previous year.

Susceptibility of profitability to volatility in raw material prices

The price of the key raw material i.e. billets, which accounts for 87 percent of raw material cost, is volatile. Any sharp upward movement in the raw material prices and the inability of the company to pass on the increased cost of raw materials may result in dip in operating margins.

Liquidity Position:

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.8.51 crore in FY2017-18 as against of Rs.7.05 crore of repayment obligations. The company efficiently managed working capital reflected by moderate gross current asset (GCA) days of 75 in FY 2018. This has led to lower reliance on working capital borrowings, the working capital limit in the company remains utilised at 85-95 percent during the last 6 months period ended December 2018.

Outlook: Stable

Acuite believes that MKSPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience and established association with Kamdhenu Limited. The outlook may be revised to 'Positive' if the company registers more than expected revenues while improving its profitability levels. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the expected revenue or the working capital cycle further elongates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	537.26	203.64	201.03
EBITDA	Rs. Cr.	17.48	10.12	9.43
PAT	Rs. Cr.	3.53	1.45	1.11
EBITDA Margin	(%)	3.25	4.97	4.69
PAT Margin	(%)	0.66	0.71	0.55
ROCE	(%)	13.19	10.74	20.52
Total Debt/Tangible Net Worth	Times	1.32	1.23	1.44
PBDIT/Interest	Times	2.27	1.82	1.79
Total Debt/PBDIT	Times	3.71	4.22	4.08
Gross Current Assets (Days)	Days	75	108	128

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/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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.26	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research:

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