

Press Release

Maa Kudargarhi Steels Private Limited

February 20, 2020

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 88.26 Cr. (Enhanced from Rs. 55.26 crore)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed a long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 85.91 crore bank facilities of MAA KUDARGARHI STEELS PRIVATE LIMITED (MKSPL). The outlook is '**Stable**'.

Also, Acuite has assigned short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs. 2.35 crore bank facilities of MKSPL.

MKSPL is a Raipur (Chhattisgarh) based company incorporated in the year 2004. It was promoted by Mr. Anil Kumar Agarwal and Mr. Sunil Kumar Agarwal. MKSPL commenced its operations in 2006 with a rolling mill of 16,000 tons per annum (TPA). It has gradually increased its capacity and current capacity of their rolling mill stands at 250,000 TPA. The company has an agreement with Kamdhenu Limited to produce and sell TMT Bars under the brand name of 'Kamdhenu'. The company sells its entire production under the 'Kamdhenu' brand. Currently, MKSPL is one of the largest manufacturers of Kamdhenu TMT with exclusive coverage in Chhattisgarh and some parts of Maharashtra and Madhya Pradesh. The company is also engaged in 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, established track record of operation and association with Kamdhenu Limited

MKSPL was promoted by Mr. Anil Kumar Agarwal (Director) and Mr. Sunil Kumar Agarwal (Director) in year 2004. The Directors have around two decades of experience in the iron and steel industry. MKSPL is engaged in the business of manufacturing TMT bars and bidding wires and trading of MS billets and bauxite. Currently it has an installed capacity of 250000 TPA which has increased from 100000 TPA in 2018. The company has an agreement with Kamdhenu Limited and sells TMT bars under the 'Kamdhenu' brand. The company pays royalty to Kamdhenu Limited for selling under their brand. MKSPL has a network of ~700 dealers with presence in entire Chhattisgarh and some parts of Madhya Pradesh and Maharashtra.

Acuite believes that the company will benefit from the experienced management, established track record of operations and association with Kamdhenu Limited.

• Healthy financial risk profile

MKSPL's financial risk profile remains healthy marked by moderate net worth of Rs. 64.12 crore as on March 31, 2019 and Rs. 49.72 crore as on March 31, 2018. This is primarily on account of retention of current year profit. The net worth also includes the unsecured loan from the promoters of Rs. 17.74 crore as the same is subordinated to bank loans. The gearing of the company improved to 1.06 times in FY2019, from 1.32 times in FY2018. The total debt of Rs. 67.71 crore consists of short term debt of Rs. 39.65 crore. The interest coverage ratio (ICR) of the company stands comfortable at 3.39 times in FY2019 as

compared to 2.27 times in the previous year. Debt service coverage ratio (DSCR) of the company stands comfortable at 1.64 times in FY2019 as compared to 1.55 times in previous year. Net cash accrual to total debt stands comfortable at 0.26 times in FY2019 as compared to 0.13 times in the previous year. Going forward, the financial risk profile is expected to remain stable in the absence of any debt funded expansion plans.

• **Increasing revenue trend**

Revenue increased to Rs. 1083 crore in FY2019, Rs. 537.26 crore in FY2018 and Rs. 203.64 in FY2017. The growth in revenue is on account of increase in both sales volume and realization per unit. MKSPL sold 241000 MT in FY2019 compared to 147492 MT in FY2018. Realization per MT has increased to around Rs. 39041 per MT in FY2019 from around Rs. 33411 per MT in FY2018. Further, the company has booked revenue of Rs. 702.33 crore (Provisional) in FY2020 (8M). The company has also increased its distribution network further in Maharashtra and Madhya Pradesh besides increased presence in Chhattisgarh. MKSPL has increased its network to ~700 dealers in FY2019 from ~550 dealers in FY2018.

Weaknesses

• **Moderate Profitability**

The operating profit margin of the company stood moderate at 2.75 per cent in FY2019 as compared to 3.25 per cent in the previous year. The deterioration the operating margin is mainly on account of increase of raw material price and increased selling expenses due to expansion of operations. The net profitability margin also stood moderate at 0.84 per cent in FY2019 as compared to 0.66 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: Adequate

MKSPL's net cash accruals stood at Rs. 17.26 crore in FY2019 and Rs. 8.51 crore in FY2018. The repayment obligation during the same period stood in the range of Rs. 7.00-8.00 crores giving the company adequate cushion to meet its repayment obligations. The operations are moderately working capital intensive marked by GCA days of 53 in FY2019 and 75 days in FY2018. However, moderate net worth has made the group dependent on borrowings for working capital management. The bank limit utilization remains high at ~95 per cent for five month period ended November 2019. However the company has been sanctioned enhanced bank limits in December 2019. Further, the current ratio stands at 1.19 times as on March 31, 2019 and 1.22 times as on March 31, 2018. Acuite believes that MKSPL's liquidity is likely to remain adequate over the medium term on account of adequate cash accruals as against repayment obligations and enhanced bank limits.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuite believes that MKSPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience, established track record of operations and strong association with Kamdhenu Limited and healthy financial risk profile. The outlook may be revised to 'Positive' if the company registers higher than expected revenue growth while improving its profitability. Conversely, the outlook may be revised to 'Negative' if the company achieves lower than expected revenue growth, further decline in profitability or deterioration of financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1,083.00	537.26
Profit after Tax (PAT)	Rs. Cr.	9.05	3.53
PAT Margin	(%)	0.84	0.66
Total Debt/Tangible Net Worth	Times	1.06	1.32
PBDIT/Interest	Times	3.39	2.27

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

CARE, vide its press release dated 15 March, 2019 has denoted the rating of MKSPL as 'CARE BB+/Stable 'Issuer not cooperating' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BBB-/Stable' vide its press release dated February 14, 2018.

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing entities- <https://www.acuite.in/view-rating-criteria-59.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. Crore.)	Ratings/Outlook
11-Mar-2019	Cash Credit	Long Term	35.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	20.26	ACUITE BBB/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00 (Enhanced from Rs. 35 crore)	ACUITE BBB/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/ Stable (Reaffirmed)
Term Loan	06-May-2018	Not Applicable	06-Apr-2025	10.79	ACUITE BBB/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.35	ACUITE A2 (Assigned)

Contacts

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About Acuité Ratings & Research:

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