

Press Release

Maa Kudargarhi Steels Private Limited

June 22, 2021

Rating Upgraded & Reaffirmed



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 98.26 Cr. (Enhanced from Rs. 88.26 crore) |
| Long Term Rating | ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable) |
| Short Term Rating | ACUITE A2 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to **'ACUITE BBB+' (read as ACUITE triple B plus)** from **'ACUITE BBB' (read as ACUITE triple B)** and reaffirmed the short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.98.26 crore of bank facilities of Maa Kudargarhi Steels Private Limited. The outlook is **'Stable'**.

The rating upgrade is driven by improvement in business risk profile of the company marked by continuous growth in profitability while sustaining their healthy scale of operation. The rating upgrade also takes into account the improvement in their overall financial risk profile and working capital management.

The rating continues to reflect the extensive experience of the management in the iron and steel industry and established association with Kamdhenu Limited. The rating also reflects efficient working capital management of the company and adequate liquidity position during the period. However, these strengths are partially offset by the vulnerability of margins to the fluctuations in steel prices and intense competition in the domestic market.

About the company

Maa Kudargarhi Steels Private Limited a Raipur based company was established in the year 2004 by Mr. Anil Kumar Agarwal and Mr. Sunil Kumar Agarwal and started its commercial operation in 2006. The company is engaged in manufacturing of TMT bar with an installed capacity of 360,000 MTPA. 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 85 per cent of its total production of TMT bars under the brand name of 'Kamdhenu' and rest they are selling under their own brand named 'Buniyaad'. The company is also engaged in trading of MS billet and bauxite.

Analytical Approach:

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

Key Rating Drivers:

Strengths

Experienced management and established association with Kamdhenu Limited

MKSPL was established in the year 2004 by Mr. Anil Kumar Agarwal and Mr. Sunil Kumar Agarwal. The directors of the company have more than 15 years of experience in the iron and steel industry. The extensive experience of the management has helped the company establish long-term relations with suppliers resulting in direct procurement of MS billet from the domestic market. Moreover, their experience has also helped in building healthy customer relations in the domestic market of Chhattisgarh, Maharashtra, Madhya Pradesh and Orissa. Acuite believes that MKSPL will continue to benefit from long experience of the management in establishing relations with their key suppliers and customers.

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, Maharashtra and Madhya Pradesh. The company has penetrated into newer geographies such as Orissa from FY'2021. The company has a wide distribution network consisting of around 850 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.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.112.14 crore in FY 2021 (Prov.) as compared to Rs 89.59 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood comfortable at 0.95 times as on March 31, 2021 (Prov.) when compared to 1.08 times as on March 31, 2020. This improvement in gearing is mainly on account of increase in networth during the period. Interest coverage ratio (ICR) stood at 4.28 times in FY2021 (Prov.) as against 4.82 times in FY 2020. The debt service coverage ratio (DSCR) of the company stood at 2.24 times in FY2021 (Prov.) as compared to 2.14 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.30 times in FY2021 (Prov.) as compared to 0.28 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

Stable turnover levels

The revenue of the company has stagnant at Rs.1026.28 crore during FY2021 (Prov.) as compared to Rs.1026.38 crore in the previous year despite of increase in realization to Rs.38333 per MT in FY2021 (Prov.) from Rs.34485 per MT in FY2020. The revenue of the company was impacted due to COVID-19 during first quarter of FY2021 due to lower capacity utilization during the period. Acuite believes, going forward the revenue of the company will increase and sustain at the healthy level backed by steady demand for 'Kamdhenu TMT' and established market presence in the domestic market along with increase in capacity utilization.

Efficient working capital management

The working capital management of the company is marked by GCA days of 89 days in FY2021 (Prov.) as compared to 83 days in FY2020. The debtor days of the company stood comfortable at 45 days in FY2021 (Prov.) as compared to 35 days in the previous year. The inventory holding period of the company also stood at 35 days in FY2021 (Prov.) as compared to 45 days in the previous year. However, the company has utilized ~95 per cent of its working capital facility for the last six months ended May 2021. Acuite believes that the working capital of the company would be maintained at efficient levels over the medium term backed by the efficient debtor management policy of the promoters.

Weaknesses

Moderate profitability margin

The operating profitability margin of the company stood moderate at 5.01 per cent in FY2021 (Prov.) as compared to 4.05 per cent in the previous year. Moreover, this improvement in operating profitability margin is due to the increase in the average price realization during the period. The net profitability margin of the company has also improved to 2.26 per cent in FY2021 (Prov.) as compared to 1.71 per cent in the previous year. Acuite believes that the company's ability to improve its revenues while maintaining its profit margin will remain a key rating sensitivity factor.

Susceptibility of profitability to volatility in raw material prices

The price of the key raw material i.e. billets, which accounts for 84 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.

Rating Sensitivity

- Sustenance in scale of operation and profitability margin
- Deterioration in capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.32.17 crore as against Rs.12.29 crore long term debt obligation during FY2021 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 42.71 crore to Rs. 60.11 crore during 2022-24 as against Rs.10.07 crore in FY2022, Rs.7.57 crore in FY2023 and Rs.6.10 crore in FY2024 of long term debt obligations. The current ratio of the company stood comfortable at 1.46 times in FY2021 (Prov.). The working capital management of the

company is marked by Gross Current Asset (GCA) days of 89 days in FY2021 (Prov.). The bank limit of the company has been ~95 per cent utilized during the last six months ended in May 2021. Moreover, the company has availed the covid emergency fund of Rs. 21.60 crore. The said loan has to be repaid over a period of 4 years including 1 year of moratorium. Moreover, the company has availed the loan moratorium till August 2020. Acuite believes that the liquidity of the company 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

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 (Standalone)

| | Unit | FY21 (Prov.) | FY20 (Actual) |
|-------------------------------|---------|--------------|---------------|
| Operating Income | Rs. Cr. | 1026.28 | 1026.38 |
| PAT | Rs. Cr. | 23.23 | 17.59 |
| PAT Margin | (%) | 2.26 | 1.71 |
| Total Debt/Tangible Net Worth | Times | 0.95 | 1.08 |
| PBDIT/Interest | Times | 4.28 | 4.82 |

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>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.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 |
|-------------|---------------------------------|------------|------------------|--------------------------------|
| 20-Feb-2020 | Cash Credit | Long Term | 50.00 | ACUITE BBB/Stable (Reaffirmed) |
| | Cash Credit | Long Term | 25.00 | ACUITE BBB/Stable (Reaffirmed) |
| | Term Loan | Long Term | 10.79 | ACUITE BBB/Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 2.35 | ACUITE A2 (Assigned) |
| | Proposed Bank Facility | Long Term | 0.12 | ACUITE BBB/Stable (Reaffirmed) |
| 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. Crore) | Ratings/Outlook |
|----------------------------------|------------------|----------------|----------------|-------------------------------|-------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE BBB+/Stable (Upgraded) |
| Term Loan | May 2018 | 12.90% | Apr 2025 | 5.51 | ACUITE BBB+/Stable (Upgraded) |
| Working Capital Term Loan - GECL | Dec 2020 | 7.80% | Dec 2024 | 11.73 | ACUITE BBB+/Stable (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BBB+/Stable (Upgraded) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.35 | ACUITE A2 (Reaffirmed) |
| Proposed Long Term Facility | Not Applicable | Not Applicable | Not Applicable | 3.67 | ACUITE BBB+/Stable (Upgraded) |

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About Acuité Ratings & Research:

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