

## Press Release

Maa Kudargarhi Steels Private Limited

December 13, 2022

## Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	103.91	ACUITE BBB+   Stable   Upgraded	-
Bank Loan Ratings	2.35	-	ACUITE A2   Upgraded
Total Outstanding Quantum (Rs. Cr)	106.26	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## 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 the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.106.26 crore bank facilities of Maa Kudargarhi Steels Private Limited. The outlook is '**Stable**'.

### Rationale for the rating

Acuite had vide its rationale dated October 21, 2022 downgraded the rating on account of information risk. Now, Acuite has received all the information and hence reinstating the long-term rating at '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) on the bank facilities of Maa Kudargarhi Steels Private Limited.

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 moderate profitability and intense competition in the domestic market.

### About the Company

Maa Kudargarhi Steels Private Limited (MKSPL), 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 names of 'Kamdhenu' and 'K2' while the balance is now being sold under their own brand named 'Buniyaad'. The company is also engaged in trading of MS billet and bauxite.

The promoters of MKSPL are setting up a MS Billet plant with 240000 MTPA capacity in their

group company, Maa Kudargarhi Power and Ispat Private Limited. The plant is being built up in the adjoining premises of MKSPL and is expected to get ready by Q4FY'23. Post commencement of operations, MKSPL would benefit hugely as the billet requirements would gradually be increasingly met by this entity.

### **Analytical Approach**

Acuité 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. Acuité 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 a wide distribution network consisting of around 850 distributors/dealers in its area of operation. Acuité believes that, 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 scale of operation**

The revenue of the company witnessed a 28.24 per cent growth in FY2022, its revenue increased to Rs.1316.21 crore in FY2022 as compared to Rs.1026.34 crore in the previous year. This growth of the revenue is majorly due to increase in average realization per unit during FY2022 backed by steady demand for billet, rolled products. The realization in rolled product had increased substantially in FY'22 which has witnessed correction in the current fiscal. Further, the average realization of the rolled product has also improved during the 1st half of FY2023, however, the realization for rolled product has declined globally on account of high level of inventory and weak demand in the export market, which may lead to overall sluggish growth in the revenue during FY2023. The company has booked around Rs.724 crore of sales till 31st October 2022 (Prov.). Going forward, Acuité believes that revenue of the company will maintain at a healthy level and sluggish growth on account of overall moderation in iron and steel industry globally.

#### **Comfortable financial risk profile**

The financial risk profile of the company is marked by healthy net worth, modest gearing and healthy debt protection metrics. The net worth of the company stood healthy at Rs.142.20 crore in FY 2022 as compared to Rs 96.67 crore in FY2021. This improvement in networth is mainly due to the retention of current year profit. The total networth of company includes Rs.25.90 crore of unsecured loan termed as quasi equity in FY2022 as the same amount is subordinated with bank debt. The gearing of the company stood at 1.15 times as on March 31, 2022 when compared to 1.08 times as on March 31, 2021. This increase in gearing is mainly on account of increase in short term debt during the period. Interest coverage ratio (ICR) is healthy and stood at 4.19 times in FY2022 as against 4.33 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood comfortable at 1.88 times in FY2022 as compared to 2.26 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.23 times in FY2022 as compared to 0.31 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain strong on

account of steady net cash accruals and no major debt funded capex plan over the near term.

### **Moderate working capital management**

The working capital management of the company is marked by comfortable gross current asset (GCA) days of 95 days in FY2022 as compared to 79 days in FY2021. This increase in GCA days is on account of significant increase in other current assets during FY2022, which mainly consists of loans and advances to related parties, advance given to suppliers and other advances during FY2022. The debtor days of the company stood comfortable at 31 days in FY2022 as compared to 39 days in the previous year. The inventory holding period of the company also stood comfortable at 51 days in FY2022 as compared to 36 days in the previous year. Further, the company has utilized ~92 per cent of its working capital facility during last six months ended October 2022. Acuité believes that the working capital of the company would be maintained at moderate levels over the medium term backed by its efficient debtor management policy.

### **Weaknesses**

#### **Moderate profitability margin**

The operating profitability margin of the company has decreased to 4.65 per cent in FY2022 as compared to 5.02 per cent in the previous year. This decrease in profitability margin is on account of an increase in raw material price. Going forward, Acuite believes, that the profitability margin of the company will increase and sustained at moderate levels over the medium term backed by steady demand, stable realization and backward integration in group also help to reduce the power and logistic cost. The operating profitability margin has further stood moderate at 5.44 per cent during 6MFY2023 (Prov.).

#### **Significant exposure to group company**

MKSPL has been increasingly pumping in funds to their group companies, the advances extended to group companies have enhanced from Rs. 07 crs in FY'21 to Rs. 28 crs in FY'22. Acuite believes that any further sizeable investments in group entities would pressurize the liquidity position of MKSPL.

#### **Intense competition and inherent cyclicity in the steel industry**

The company is operating in competitive and fragmented nature of industry due to the presence of many unorganized players on account of low entry barriers. Moreover, demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the profit margins and sales of the company remains exposed to inherent cyclicity in these sectors.

### **Rating Sensitivities**

- ☐ Sustenance in scale of operation and profitability margin
- ☐ Further deterioration in capital structure
- ☐ Working capital management

### **Material covenants**

None

### **Liquidity Position**

#### **Adequate**

The company has adequate liquidity marked by healthy net cash accruals of Rs.38.32 crore as against Rs.7.74 crore long term debt obligation during FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 41.20 crore to Rs. 61.09 crore during 2022-24 as against Rs.7.74 crore of long term debt obligations in FY2023 and FY2024 respectively. The current ratio of the company stood comfortable at 1.33 times in FY2022. The working capital management of the company is marked by moderate Gross Current Asset (GCA) days of 95 days in FY2022. The bank limit of the company has been ~92 per cent utilized during the last six months ended in October 2022. Acuité 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

Acuité 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1316.21	1026.34
PAT	Rs. Cr.	29.12	23.21
PAT Margin	(%)	2.21	2.26
Total Debt/Tangible Net Worth	Times	1.15	1.08
PBDIT/Interest	Times	4.19	4.33

## 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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Cash Credit	Long Term	25.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	50.00	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Working Capital Term Loan	Long Term	4.87	ACUITE BBB (Downgraded and Issuer not co-operating*)

21 Oct 2022	Working Capital Demand Loan	Long Term	4.58	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Working Capital Term Loan	Long Term	11.73	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	1.85	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	2.35	ACUITE A3+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	0.37	ACUITE BBB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	5.51	ACUITE BBB (Downgraded and Issuer not co-operating*)
29 Jul 2021	Working Capital Term Loan	Long Term	11.73	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE BBB+   Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	4.58	ACUITE BBB+   Stable (Assigned)
	Bank Guarantee	Short Term	2.35	ACUITE A2 (Reaffirmed)
	Working Capital Term Loan	Long Term	4.87	ACUITE BBB+   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.37	ACUITE BBB+   Stable (Reaffirmed)
	Term Loan	Long Term	5.51	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB+   Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.85	ACUITE BBB+   Stable (Assigned)
22 Jun 2021	Bank Guarantee	Short Term	2.35	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Proposed Bank Facility	Long Term	3.67	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Cash Credit	Long Term	25.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Working Capital Term Loan	Long Term	11.73	ACUITE BBB+   Stable (Assigned)
	Term Loan	Long Term	5.51	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
20 Feb 2020	Term Loan	Long Term	10.79	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.12	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.35	ACUITE A2 (Assigned)
	Term Loan	Long Term	20.26	ACUITE BBB   Stable (Assigned)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.35	ACUITE A2   Upgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB+   Stable   Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB+   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.37	ACUITE BBB+   Stable   Upgraded
Union Bank of India	Not Applicable	Term Loan	May 31 2018 12:00AM	12.90	Apr 30 2025 12:00AM	Simple	5.51	ACUITE BBB+   Stable   Upgraded
Union Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	4.58	ACUITE BBB+   Stable   Upgraded
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	1.85	ACUITE BBB+   Stable   Upgraded
Punjab National Bank	Not Applicable	Working Capital Term Loan	Dec 31 2020 12:00AM	8.35	Dec 31 2024 12:00AM	Simple	4.87	ACUITE BBB+   Stable   Upgraded
Union Bank of India	Not Applicable	Working Capital Term Loan	Dec 31 2020 12:00AM	7.80	Dec 31 2024 12:00AM	Simple	11.73	ACUITE BBB+   Stable   Upgraded

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### About Acuité Ratings & Research

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