

Press Release

Ispat Damodar Private Limited

October 18, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.111.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.111.00 Cr bank facilities of Ispat Damodar Private Limited (IDPL). The outlook is '**Stable**'.

The rating upgrade of IDPL is driven by the company's improved business risk profile marked by significant increase in revenues despite Covid-19 induced lockdown, ongoing forward integration into rolling mill and reduced dependence on bank limits. The rating upgrade also factors in the improved financial risk profile.

The rating continues to reflect the company's long track record of operations, experienced management, established relationships with reputed players in the iron and steel industry. These strengths are, however partly offset by the working capital intensity in IDPL's operations, provisional attachment by ED on the assets of IDPL and the susceptibility of margins due to volatility in input prices.

About the company

Incorporated in 2006, Ispat Damodar Private Limited (IDPL) was promoted by Mr. Satpal Bansal and is currently headed by Mr. Vikas Bansal and Mr. Arup Majee. The company is engaged in the manufacture of sponge iron, MS billet and ferro alloys with an installed capacity of 60000 MTPA each. The company also has a 18 MW waste heat based power plant for captive consumption. The manufacturing facility of the company located at Purulia, West Bengal.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of IDPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

IDPL's promoters have an experience spanning over a decade in the ferro alloy, billet and sponge iron industry and understanding of the local market dynamics. The company has also established relationships with reputed players like Captain Steel India Ltd. (rated at ACUITE A+/Positive/A1+), Odisha Mining Corporation Limited, Carbon Resources Pvt. Ltd. (rated at ACUITE A/Stable/A1) only to name a few. Acuite believes the long track record, experienced management and healthy relations with suppliers will continue to support the business, going forward.

• Sound business risk profile

The company has achieved revenues of around Rs.408.72 Cr in FY2021 (Provisional) as against Rs.199.50 Cr in FY2020 and Rs.401.66 Cr in FY2019. The increase in top line in FY21 is due to continuous demand and healthy capacity utilization of sponge iron and billets. The provisional revenue till Aug'21 stood at around Rs.322 Cr. The capacity utilization remained healthy at 91 per cent in FY21 for sponge iron and billet production. Further, in Q1FY22, silico manganese production increased due to high demand and good prices in the market. The operating margin of the company stood at 5.96 per cent and the PAT margin stood at 0.35 per cent, led by

improvement in the average realisation in FY21 and further in Q1FY22 due to thrust in the iron and steel industry. The company is forward integrating by setting up a rolling mill and expanding the capacity of its induction furnace with an additional 60,000 MTPA capacity, both of which will be operational from April, 2022. Acuite believes with healthy capacity utilization and forward integration, the scale of operations of the company will improve over the medium term.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by high networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the company stood at Rs.228.81 Cr as on 31st March, 2021 (provisional) as compared to Rs.223.45 Cr as on 31st March, 2020. Acuite has considered unsecured loans of Rs.53.25 Cr as part of networth as the management has undertaken to maintain the same in the business over the medium term. Gearing stood below unity at 0.30 times as on 31st March, 2021 (prov.) as compared to 0.33 times as on 31st March, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.78 times as on 31st March, 2021 (prov.) as compared to 0.65 times in the previous year. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 2.80 times and Debt Service coverage ratio at 2.63 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.23 times as on 31st March, 2021 (prov.). Acuite believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital cycle is intensive marked by high Gross Current Assets (GCA) of 213 days in FY2021 (provisional) as compared to 415 days in FY2020. The high GCA days are mainly on account of high inventory holding period at 139 days in FY21 as compared to 254 days the previous period. The company generally maintains buffer stock of manganese ore and iron ore. The debtor period stood comfortable at 46 days as on March 31, 2021 (prov.) as compared to 35 days as on 31st March 2020. Going forward, Acuite believes that the operations will remain working capital intensive as evident from the high inventory holding period and with forward integration this is expected to remain at similar levels.

- **Regulatory issue**

In April 2021, a provisional attachment order was passed under Prevention of Money Laundering Act by the Enforcement Directorate (ED) to seize assets of IDPL. As per the charges of the Central Bureau of Investigation (CBI), Mr. Anup Majee, former director in IDPL, had transferred the funds of illegal mining and coal theft in the company. As per the provisional attachment order, the company cannot sell its capital assets to any third party. However, this order is provisional and no proof or charge sheet has been arrived at so far. The operations of the company also remained unaffected. Indian bank had freezed the company's account for a few days, thereafter the banks allowed transactions. However, Acuite will continue to monitor the provisional attachment by ED on the assets of IDPL, and hence will remain a key rating sensitivity.

- **Highly fragmented industry and volatility in raw material prices**

IDPL operates in highly fragmented industry wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers. Margins of the company are susceptible to volatility in raw material prices which have been uneven during the period under study. Any significant changes in raw material prices due to import pressure and over supply would have an impact on the revenues and margins of the company.

Rating Sensitivity

- Improvement in the profitability margins
- Elongation in the working capital cycle
- Outcome of the ongoing investigation against the promoter

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by healthy net cash accruals of Rs.15.66 Cr in FY2021

(provisional) as against a long term debt repayment of only Rs.0.55 Cr over the same period. The current ratio stood comfortable at 1.47 times as on 31st March, 2021 (provisional) as compared to 1.79 times as on 31st March, 2020. The cash and bank balances of the company stood at Rs.0.04 Cr in FY2021 (provisional) as compared to Rs.0.01 Cr in FY2020. The company did not avail any Covid loan or a loan moratorium. However, the fund based limit remained utilised at about 86 percent over the six months ended July, 2021. Acuite believes that going forward the liquidity position of the company will improve due to steady cash accruals.

Outlook: Stable

Acuite believes the company's outlook will remain stable over the medium term on account of its experienced management, comfortable financial risk profile and healthy scale. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while improving its operating margins. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the working capital cycle or stretch in the liquidity profile due to crystallisation of any unforeseen liability arising out of the ongoing case.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	408.72	199.50
PAT	Rs. Cr.	1.44	1.93
PAT Margin	(%)	0.35	0.97
Total Debt/Tangible Net Worth	Times	0.30	0.33
PBDIT/Interest	Times	2.80	2.77

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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	Ratings/Outlook
			(Rs. Crore)	
21-Jul-20	Cash Credit	Long term	41.60	ACUITE BB+ (Downgraded from ACUITE BBB-/Stable) Issuer not co-operating*
	Cash Credit	Long term	23.20	ACUITE BB+ (Downgraded from ACUITE BBB-/Stable) Issuer not co-operating*
	Corporate Loan	Long term	5.20	ACUITE BB+ (Downgraded from ACUITE BBB-/Stable) Issuer not co-operating*
	Letter of Credit	Short term	13.70	ACUITE A4+ (Downgraded from ACUITE A3) Issuer not co-operating*
	Letter of Credit	Short term	7.30	ACUITE A4+ (Downgraded from ACUITE A3) Issuer not co-operating*
	Proposed Bank Guarantee	Short term	20.00	ACUITE A4+ (Downgraded from ACUITE A3) Issuer not co-operating*
03-May-19	Cash Credit	Long term	41.60	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long term	23.20	ACUITE BBB-/Stable (Assigned)
	Corporate Loan	Long term	5.20	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short term	13.70	ACUITE A3 (Assigned)
	Letter of Credit	Short term	7.30	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short term	20.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.33	ACUITE BBB-/Stable (Upgraded)
Indian Bank (previously Allahabad Bank)	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.20	ACUITE BBB-/Stable (Upgraded)
Not Applicable	Proposed long term bank facility	Not Applicable	Not Applicable	Not Applicable	15.64	ACUITE BBB-/Stable (Upgraded)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.53	ACUITE A3 (Upgraded)
Indian Bank (previously Allahabad Bank)	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.04	ACUITE A3 (Upgraded)
Indian Bank (previously Allahabad Bank)	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.26	ACUITE A3 (Upgraded)
Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Upgraded)

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About Acuité Ratings & Research:

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