

Press Release

Ispat Damodar Private Limited

January 06, 2023

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	72.17	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	38.83	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	111.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for the rating

The downgrade in the rating primarily factors in the deterioration in the liquidity position of the company mainly due to continuous reduction in the company's sanctioned limits by the lenders on account of past regulatory issues. Further, the rating is also constrained by the company's working capital intensive operations and the thin profitability margins susceptible to volatility in input prices.

However, the rating considers the steady business risk profile of IDPL marked by increase in the revenues. The rating also takes into account the experienced management and the healthy financial risk profile of the company characterized by comfortable leverage ratios.

About the Company

Incorporated in 1996 in West Bengal, Ispat Damodar Private Limited is promoted by Mr. Vikas Bansal, Sumita Majee and Mr. Arup Majee. The company is engaged in the manufacture of sponge iron, MS billet and ferro alloys with an installed capacity of 60,000 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

- **Long track record of operations and experienced management**

DPL's key promoter, Mr. Vikas Bansal 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 Oswal Minerals Ltd, Odisha Mining Corporation Limited, Carbon Resources Pvt. Ltd. only to name a few. Acuité believes the long track record, experienced management and healthy relations with suppliers will continue to support the business, going forward.

The company has achieved revenues of around Rs.619.98 Cr in FY2022 as against Rs.407.53 Cr in FY2021 and Rs.199.50 Cr in FY2020. The provisional revenue till Oct'22 stood at around Rs.360 Cr(Provisional).

- **Healthy financial risk profile**

The company's financial risk profile is marked by healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the company stood at Rs.180.08 Cr as on 31st March, 2022 as compared to Rs.175.04 Cr as on 31st March, 2021. Gearing of the company remained below unity at 0.55 times as on March 31, 2022 as against 0.71 times as on March 31, 2021. The Total Outside Liability/Tangible Net Worth (TOL/TNW) stood at 1.08 times as on March 31, 2022 as compared to 1.19 times in the previous year. The strong debt protection metrics of the company is marked by Interest Coverage Ratio of 5.09 times and Debt Service Coverage Ratio at 3.86 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times as on March 31, 2022 as against 0.12 times as on March 31, 2021. Acuité believes that going forward the financial risk profile of the company will remain at similar level backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Thin profitability margins**

The operating margin of the company decreased to 5.09 per cent in FY2022 as compared to 5.71 per cent in the previous year. The PAT margins stood at 0.81 per cent in FY2022 as against 0.24 per cent in FY2021. Acuité believes that the improvement in profitability of the company would be a key monitorable going forward.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 111 days as on 31st March 2022 as compared to 191 days as on 31st March 2021. The high GCA days is high on account of a high proportion of other current assets consisting of amount receivables from materials on loan and other loans and advances. However, the inventory days stood comfortable at 48 days as on 31st March 2022 as compared to 137 days as on 31st March 2021. The company generally maintains buffer stock of manganese ore and iron ore. They purchase these in large quantities (vessels) in order to reduce cost and hence maintain stock as there is shortage of such materials at times and also for the smooth functioning of the plant. The debtor period also stood comfortable at 26 days as on 31st March 2022 as compared to 24 days as on 31st March 2021. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

- **Intense competition and inherent cyclical nature of the steel industry**

The downstream steel industry remains heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Thin profitability margins
- Thin profitability margins
- Elongation in the working capital cycle

Material covenants

None

Liquidity Position

Stretched

The company has a stretched liquidity position with fund based utilization at 93 per cent for the last 6 months till September 2022 on account of continuous reduction in limits from both their lenders. Further, the working capital intensive nature of operations is marked by high GCA days of 111 days as on March 31, 2022 as compared to 191 days as on March 31, 2021. However, the company has sufficient net cash accruals of Rs.19.27 Cr in FY2022 as against a long term debt repayment of only Rs.0.32 Cr over the same period. The current ratio stood comfortable at 1.57 times as on March 31, 2022 as compared to 1.46 times as on March 31, 2021. The cash and bank balances stood at Rs 0.06 Cr as on March 31, 2022. Acuite believes that going forward the liquidity position of the company will be stretched further due continuous decrease in working capital limits.

Outlook: Stable

Acuite believes the company's outlook will remain 'stable' over the medium term on account of its experienced management, healthy financial risk profile and healthy scale. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	619.98	407.53
PAT	Rs. Cr.	5.04	0.96
PAT Margin	(%)	0.81	0.24
Total Debt/Tangible Net Worth	Times	0.55	0.71
PBDIT/Interest	Times	5.09	3.04

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Oct 2021	Cash Credit	Long Term	33.33	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	23.20	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Letter of Credit	Short Term	1.26	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Bank Facility	Long Term	15.64	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	6.04	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	11.53	ACUITE A3 (Upgraded from ACUITE A4+)
21 Jul 2020	Cash Credit	Long Term	23.20	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	5.20	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	41.60	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	7.30	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	13.70	ACUITE A4+ (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.53	ACUITE A4+ Downgraded
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	6.04	ACUITE A4+ Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	33.33	ACUITE BB+ Stable Downgraded
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.20	ACUITE BB+ Stable Downgraded
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.26	ACUITE A4+ Downgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A4+ Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	15.64	ACUITE BB+ Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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