

Press Release

Haldia Steels Private Limited (HSPL)

December 23, 2019



Rating Reaffirmed & Assigned

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 75.00 Cr. (Enhanced from Rs 10.00 Crore) |
| Long Term Rating | ACUITE BB/Stable (Reaffirmed & Assigned) |
| Short Term Rating | ACUITE A4+ (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and **assigned** short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 75.00 crore bank facilities of Haldia Steels Private Limited. The outlook is '**Stable**'.

Incorporated in 1996, Haldia Steels Private Limited is a Kolkata based company having its manufacturing unit in Durgapur, West Bengal. The company is engaged in manufacturing of ferroalloys, sponge iron and billets with the installed capacity of 120,000 MTPA for Sponge Iron, Steel Billets for 60,000 MTPA and Ferro alloys for 12,000 MTPA. Currently, the company is managed by Mr. Vikas Bansal, Mr. Satpal Bansal and Mr. Markanda Samanta. The company procures manganese ore, iron ore pallets, dolomite and coal locally and sells steel billets and ferro alloys to its customers based in Kolkata.

Incorporated in 1994, Brand Alloys Private Limited (BAPL) is a Kolkata based company having its manufacturing unit in Serampore, West Bengal. The company is engaged in manufacturing of TMT rebars, railway components and bogies. Further, BAPL is into an agreement with Tata Steel Limited for conversion of billets into TMT Rebar from last 10 years. Currently, the company is being managed by Mr. Vikas Bansal, Mr. Satpal Bansal and Mr. Markanda Samanta. The raw materials, diesel, coal and railway components are procured locally from companies based out of Kolkata. The company also caters to the local customers in Kolkata. Presently, the installed capacity for TMT rebars is 60,000 MTPA and for railways components, installed capacity stood at 10,000 MTPA.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Brand Alloys Private Limited with Haldia Steels Private Limited herein referred to as Haldia Steels Group. The consolidation is in view of common management, similar line of business and financial linkages in terms of corporate guarantee (Haldia Steels Private Limited has given to Brand Alloys Private Limited).

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

Incorporated in 1994, the Haldia group started with the incorporation of BAPL and has long track record of operations of more than two decades in the business. The group also benefits from the extensive experience of its promoters. Currently, the company is being promoted by Mr. Vikas Bansal, Mr. Satpal Bansal and Mr. Markanda Samanta. The promoters have more than two decades of experience in the same line of business on account of long track record of operation. Going forward, Acuité expects the group will sustain its existing business profile on the back of established track record of operations and experienced management.

- Proximity to raw material**

The key raw materials of the group are iron ore pellet, manganese ore and coal. The group has manufacturing unit in Durgapur, West Bengal. HSPL has proximity to raw materials along with low transportation cost.

Weaknesses

• Moderate financial risk profile

The group has moderate financial risk profile marked by healthy networth, comfortable gearing and weak debt protection metrics. The tangible networth stood at Rs 137.30 crore as on 31st March, 2019 as against Rs 139.52 crore as on 31st March, 2018. The decrease in networth is on account of negative Profit After Tax (PAT). The gearing stood comfortable at 0.81 times as on 31st March, 2019 as against 0.62 times as on 31st March, 2018. The Total Outside Liabilities/ Tangible networth (TOL/TNW) stood high at 2.18 times as on 31st March, 2019 as against 1.72 times as on 31st March, 2019. Total debt of Rs 111.52 crore as on 31st March, 2019 includes long term debt of Rs 19.2 crore, unsecured loan from directors and promoters of Rs 38.15 crore and short term debt of Rs 54.18 crore. Interest Coverage Ratio (ICR) stood at 1.81 times for FY 19 as against 1.56 times in the previous year. Debt Service Coverage Ratio (DSCR) stood at 1.10 times for FY 19 as against 0.80 times in FY 18. Net Cash Accruals/ Total Debt (NCA/TD) stood low at 0.11 times in FY 19 as compared to 0.06 times in FY 18. The financial risk profile of the group is expected to remain moderate over the medium term in the absence of any major debt funded capex plans.

• Working Capital intensive nature of operations

The group's operations are working capital intensive as reflected in Gross Current Assets (GCA) days of 285 days in FY 19 as against 392 days in FY 18. These high GCA days emanates from high inventory days of 133 days in FY 19 as against 225 days in FY 18. Further, the debtor days stood at 42 days in FY 19 as against 37 days in FY 18. Moreover, the other current assets stood at Rs 97.86 crore as on 31st March, 2019. The company's operations are expected to remain working capital intensive.

Rating Sensitivity

- Substantial growth in revenue coupled with improvement in profitability
- Improvement in working capital management
- Improvement in financial risk profile

Material Covenants

None

Liquidity Profile

Haldia Steels Group has stretched liquidity position marked by moderate cash accruals. The group has generated cash accruals of Rs. 11.75 crore in FY 19 against maturing debt obligation of Rs 9.67 crore in the same period. The Net Cash Accruals/ Total Debt (NCA/TD) stood low at 0.11 times in FY 19 as against 0.06 times in FY 18. The group maintains unencumbered cash and bank balances of Rs 0.22 crore as on 31st March, 2019. The current ratio of the group stood at 1.19 times as on 31st March, 2019. Further, the operations of the group are working capital intensive marked by Gross Current Assets (GCA) days of 285 days in FY 19 as against 392 days in the previous year. The bank limit remains utilized by BAPL is ~86 percent. The liquidity of the company is expected to improve on account of moderate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that Haldia Steels Group will continue to benefit over the medium term from its experienced management and long track record of operation. The outlook maybe revised to 'Positive' in case the group registers higher than expected growth in revenues while improving its profitability and working capital management. Conversely, the outlook maybe revised to 'Negative' in case the group fails to achieve the projected revenues or in case of deterioration in company's financial risk profile and working capital management.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 418.14 | 240.75 |
| PAT | Rs. Cr. | (2.23) | (9.36) |
| PAT Margin | (%) | (0.53) | (3.89) |
| Total Debt/Tangible Net Worth | Times | 0.81 | 0.62 |
| PBDIT/Interest | Times | 1.81 | 1.56 |

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

India Ratings, vide its press release dated June 17, 2019 had denoted the rating of Haldia Steels Private Limited as 'IND BB/A4+; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 |
|--------------|---------------------------------|-----------|--------------------|-----------------------------|
| 06- Dec-2019 | Cash Credit | Long Term | 10.00 | ACUITE BB/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 | 35.00 (Enhanced from Rs. 10.00 Crore) | ACUITE BB/ Stable (Reaffirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 8.55 | ACUITE BB/ Stable (Assigned) |
| Proposed fund based facility | Not Applicable | Not Applicable | Not Applicable | 1.45 | ACUITE BB/ Stable (Assigned) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE A4+ (Assigned) |

Contacts

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About Acuité Ratings & Research:

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