

Press Release

Narbheram Power & Steel Private Limited

June 29, 2020

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 89.00 crore
Long Term Rating	ACUITE BBB+ / Outlook :Stable
Short Term Rating	ACUITE A2

Rating Rationale

Acuite has reaffirmed long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 89.00 crore bank facilities of NARBHERAM POWER & STEEL PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 1999, Narbheram Power & Steel Private Limited (NPSL) is a West Bengal based company engaged in manufacturing of sponge iron and billets. The company has set up a manufacturing plant with an installed capacity of about 1,00,000 MT per annum for sponge iron and 60,000 MT per annum for billets at Dhenkenal, Odisha. The company has also installed an in-house waste-heat based power plant of 8 MW used for captive consumption. The company was taken over by the Atha group in July 2007 from a Delhi based promoter, Rajnish Gupta who had promoted the company under the name of Scaw Industries Limited. The company is currently managed by Atha family.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of NPSL to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record and experienced management

The company has a long track record of over two decades in the sponge iron and billet manufacturing industry. The company is controlled by promoter directors who possess business experience of more than thirteen years in the steel industry. Currently, Mr. Gaurav Atha looks after the day-to-day operations of the company. The company is ably supported by a strong and experienced line of mid-level managers. Acuite believes the vast experience of the promoter has enabled the company to build strong relationship with customers as well as suppliers, resulting in continued order flow from customers.

The company's scale of operations stood modest marked by revenues of Rs. 208.27 crores till Jan, FY20 (Provisional).

• Backward integration through in-house Iron Ore Availability

The Atha group owns and operates iron ore mines with a mining capacity of 3.5 MTPA in Barbil, Odisha through its flagship entity, Narbheram Vishram (NV). Narbheram Vishram is engaged in iron ore mining for over five decades. The mining lease of NV is due to expire from March 2020, the group has bid for mining license through NPSL and has been successfully awarded the lease for 50 years comprising a total area of 74.7 Hectares.

Once the mining lease gets signed which is expected in Sep, 2020, the entire requirements of iron

ore of NPSL will be met from their own mines which will further improve the profitability margin of the company as iron ore is one of the major raw material required for manufacturing of sponge iron. The company expects minimum Rs. 200 per ton of cost savings in iron ore from FY 2021 onwards if it is procured from their captive mines. Moreover, the company can sell surplus iron ore in the market upto 25 per cent of total production thereby boosting revenues.

• **Comfortable financial risk profile**

The financial risk profile of the company is comfortable marked by high net worth, low gearing and strong debt protection metrics. The tangible net worth of the company stood at Rs. 334.64 crore as on 31st March, 2019 as against 199.41 crore as on 31st March, 2018. The increase in net worth is mainly due to infusion of compulsorily convertible preference shares worth Rs.222.00 crore in FY2019. Acuite has considered compulsorily convertible preference shares as part of net worth. The gearing (debt-equity) stood low at 0.05 times in FY2019 as against 0.45 times as on FY2018. The total debt of Rs. 17.28 crore as on March 31st, 2019 consists of loans from related parties. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood comfortable at 8.46 times and 8.45 times in FY2019 as compared to 7.12 times and 0.43 times in FY2018 respectively. The NCA/TD stood at 1.00 times in FY2019. Acuite believes financial risk profile of the company is expected to remain comfortable with no significant dependence on long term loans and healthy cash generation in the medium term.

Weaknesses

• **Moderate but improving profitability**

The company's operating profitability stood low at 4.00 per cent in FY2019 as compared to 3.10 percent in FY2018, though it has improved. However, the PAT margin improved to 5.61 per cent in FY2019 as compared to 0.74 per cent in the previous year. This is on account of high non-operating income in the form of interest received on advances given to a related party. However, operating margins are expected to improve going forward due to availability of raw materials inhouse and lower power cost.

• **Presence in highly competitive and fragmented industry**

The company is operating in competitive and fragmented nature of industry especially in primarily steel producing industry. There are several players who are engaged in the sponge iron and billets manufacturing business in organized and unorganized sector. Moreover, the profit margins and sales of the company remains exposed to inherent cyclicity in the steel industry.

Rating Sensitivity

- Timely availability of iron ore
- Improvement in operating profitability
- Efficient working capital management

Material Covenants

None

Liquidity:

The company's liquidity is adequate marked by moderate net cash accruals against no long term debt obligations. The company has generated cash accruals of Rs.17.23 crore in FY2019 against cash accruals of Rs.5.49 crore in FY2018. The company's operations are working capital intensive marked by high gross current asset (GCA) of 312 days in FY2019 as against 96 days in FY2018. The current ratio stood at 1.17 times as on March 31, 2019. The company maintains unencumbered cash and bank balances of Rs.1.22 crore as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of no significant debt.

Outlook: Stable

Acuité believes that the company will continue to benefit over the medium term from the promoters' vast experience in business and backward integration through allotment of iron ore mining lease. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or weakening of the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	233.38	198.52
PAT	Rs. Cr.	13.09	1.47
PAT Margin	(%)	5.61	0.74
Total Debt/Tangible Net Worth	Times	0.05	-
PBDIT/Interest	Times	8.46	7.12

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Apr-2020	Proposed Long Term Loan	Long Term	27.00	ACUITE BBB+/Stable (Assigned)
	Proposed Working Capital Loan	Long Term	35.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Guarantee	Short Term	27.00	ACUITE A2 (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
Term Loan	Not Available	Not Applicable	Not Available	27.00	ACUITE BBB+/Stable
Proposed Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/Stable
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A2

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About Acuité Ratings & Research:

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