



Press Release
NARBHERAM POWER AND STEEL PRIVATE LIMITED
May 31, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	231.60	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	32.00	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	263.60	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and its short term rating of '**ACUITE A2**' (read as **ACUITE two**) on the Rs. 263.60 crore bank facilities of Narbheram Power and Steel Private Limited (NPSPL). The outlook is '**Stable**'.

Rationale for the rating

The ratings factor into Acuite's expectation that despite a subdued performance of the group in FY23 (in line with the industry trend), its credit metrics would recover in FY2024, led by an improvement in the steel spreads as well as healthy demand from the end-user industries. The group's financial performance remained muted in FY2023 due to a moderation in metal prices in Q2 and Q3 FY2023 and consumption of high-cost coking coal, among others. With an expected improvement in the steel spread and healthy domestic demand from the end-user industries, the credit metrics are expected to improve in FY2024, supported by strong liquidity and a comfortable capital structure. The rating draws comfort from the extensive experience of the promoters in the steel industry. The rating is, however, constrained by the group's margins being susceptible to the volatility in raw material prices, working capital intensity, along with the group's exposure to the inherent cyclical in the steel industry.

About Company

Incorporated in 1999, **Narbheram Power and Steel Private Limited (NPSPL)** is engaged in the manufacturing of sponge iron and billets. The company's manufacturing plant has an installed capacity of about 1,00,000 TPA for sponge iron and 60,000 TPA for billets at Dhenkanal, Odisha. It has also installed an in-house waste-heat-based power plant of 8 MW for captive consumption. Currently, the company is operating an iron ore mine with a maximum permitted pace of 35,00,000 TPA, which they are operating at a set pace of 28,50,000 TPA in Keonjhar, Odisha, which was earlier operated by another group company, Narbheram Vishram.

About the Group

Amalgam Steel Private Limited (ASPL) is a JV between Atha and Misra Groups and operates a 1.2-mtpa pellet plant near Jamshedpur, in Jharkhand. The company was demerged from Orissa Manganese & Minerals Limited (OMML), which was acquired by the Atha and Misra Groups from the Adhunik Group through an insolvency resolution process in November 2018. The resolution plan, as submitted, was approved by the NCLT bench, Kolkata, vide their order dated June 22, 2018. The acquisition was done at a price of Rs. 310

crore.

NPSPL acts as a backward integration for ASPL. 100 percent of the iron ore fines requirements of ASPL are met through NPSPL. Also, 50 percent of the iron ore fines sales of NSPL are made to Amalgam Steel Pvt. Ltd.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of **Narbheram Power and Steel Private Limited (NPSPL)** and **Amalgam Steel Private Limited (ASPL)** together referred to as the 'Atha Group' (AG). The consolidation is in the view of common management, operational linkages, financial linkages between the entities, and a similar line of business.

Key Rating Drivers

Strengths

Long track record and experienced management

NPSPL is promoted by the Kolkata-based Atha Group. The promoters have around six decades of experience in the iron ore mining and steel business. Going forward, increased iron ore procurement from mines would reduce freight costs further as these mines are located closer to ASPL's pellet plant. Acuité believes the vast experience of the promoters has enabled the group to build strong relationships with customers as well as suppliers, resulting in continued order flow from customers.

Sustained revenue growth

Supported by a strong rebound in steel demand post-unlocking of the economy, the group witnessed an improvement in its scale of operations, marked by revenues of Rs. 2309.52 crore in FY2022 as against Rs. 673.51 crore in FY2020, which increased at a CAGR of 50 percent over FY20–FY22. The average realisations for sponge iron, billets, and pellets have rallied sharply since FY2021, and such buoyant realisations led to robust growth in the company's operating income in FY2022. The average realisation and sales volume of both intermediate and finished products had witnessed improvement because of rising demand from end-user segments. Further, NPSPL has started operating its Barbil iron ore mine since Q4FY21, which helped the company reduce its dependence on external supplies of iron ore, boosting the top line.

However, Acuité noted that with the softening of realisations in FY23, in tandem with a demand slowdown in the international market, the top line of the group moderated, recording a muted revenue of Rs 2067.13 crore (prov). On May 21, 2022, the Government of India (GoI) imposed a steep 45 percent duty (from nil earlier) on the export of iron ore pellets, post which pellet prices came under pressure. Although iron ore prices also declined significantly, partly cushioning the decline in pellet prices, the gross contribution level reduced from the high of FY2022, leading to a moderation in FY2023 earnings for merchant pellet makers like ASPL.

Healthy financial risk profile

The financial risk profile of the group is marked by strong net worth, comfortable gearing, and moderate debt protection metrics. The tangible net worth of the group improved to Rs. 837.66 crore (adjusted) as of March 31, 2023 (prov) from Rs. 792.79 crore as of March 31, 2022, aided by sizeable accretion to reserves and the infusion of compulsorily convertible preference shares worth Rs. 222.00 crore in FY2019, considered part of net worth. Further, Acuité has considered unsecured loans of Rs. 166.00 crore as of March 31, 2023, as quasi-

equity as the management has undertaken to maintain the amount in the business over the medium term. The gearing of the group stood comfortably below unity at 0.66 times (prov) as of March 31, 2023, due to limited reliance on external debt to support the working capital requirements, as the promoters have extended significant financial support to the group via unsecured loans to cover the working capital and the debt obligations. Acuité notes that the group has been regularly incurring capex in the last few years to improve the share of value-added products in the overall revenue and profitability mix and foray into backward integration. The total outside liabilities/tangible net worth (TOL/TNW) stood at 1.29 times (prov) as of March 31, 2023. Even though with the surge in earnings, the coverage ratios improved significantly in FY22, the same moderated in FY23 due to declining EBITDA levels, as the interest coverage ratio stood at 2.71 times and the debt service coverage ratio at 1.49 times as of March 31, 2023 (prov). Calibrated capex undertaken by the group over the past years, funded through internal accruals, unsecured loans, and debt, has also helped it maintain steady leverage. Commensurate returns from the planned capex in the form of backward integration and optimal capacity utilisation will remain key credit monitorables for the group. Acuité expects the leverage and coverage indicators to remain healthy in FY24 on the back of the stabilisation of metal prices.

Weaknesses

Working capital-intensive nature of operations

The working capital intensive nature of operations of the group is reflected in the improved GCA days of 205 days as of March 31, 2023 (prov) as compared to 250 days as of March 31, 2022. The high GCA days are on account of significant loans and advances to related parties. However, the improvement in GCA days is supported by a low debtor period of only 10 days as of March 31, 2023 (prov), since the group mostly sells to reputed clients and follows an efficient collection mechanism. Further, the inventory holding improved and stood moderate at 61 days on March 31, 2023 (prov) as compared to 77 days on March 31, 2022, benefiting from a low lead time for procurement. Acuité believes that the working capital operations of the group will remain at the same level, as evident from efficient collection mechanisms and comfortable inventory levels over the medium term.

Inherent cyclical nature of the steel industry with fluctuations in the prices of raw materials and finished goods

The group's performance remains vulnerable to cyclicity in the steel sector given the close linkage between the demand for steel products and the domestic and global economies. The end-user segments such as real estate, civil construction, and engineering also display cyclicity. Further, operating margins are vulnerable to volatility in input prices (iron ore and coal) as well as realisation from finished goods. The operating margin of the group declined in FY22 to 9.49 percent from 25.34 percent in FY21, as the cost structure of NPSP was severely impacted by the payment of a 90.90 percent royalty per tonne of iron ore dispatched by it to the Government of Odisha since FY22, decreasing its overall operating margin. Further, the margins took a hit again in FY23 with the imposition of export duty in May 22. However, the margins stabilised since Q4 FY23, with the removal of the duty in November 22. Acuité believes that going forward, the profitability margin of the group will be supported by backward integration measures and economies of scale, as the RM prices have already seen some moderation, especially for iron ore. Coking coal, one of the key input raw materials that changes the dynamics of the steel industry, has plunged over the last few days with easing supply concerns. That said, the FSA price hike by Coal India remains a risk. EBITDA margin should remain healthy at 6-7 percent, aided by cost advantages emanating from lower power costs as well as the improving cost structure on account of backward integration.

ESG Factors Relevant for Rating

Environment

Manufacture of metals has a substantial environmental impact. The production of basic

metals is extremely power-intensive. Most steel is still produced in blast furnaces, which release large amounts of carbon dioxide, nitrogen oxide, and particulate matter into the air. Moreover, improper waste disposal could lead to the release of toxic fluids into the surroundings, which could have devastating effects. Other issues include efficient water utilisation and managing water pollution.

Social

Occupation and workforce health and safety management are of primary importance to this industry given the dangerous nature of operations. Furthermore, community relations, inclusive development, and human rights concerns are crucial factors considering the exploitative industry practises. Additionally, the quality of the product is of utmost significance for this industry.

Governance

Factors such as ethical business practises, management compensation, and board administration hold primary importance within this industry. Likewise, regulatory compliance, shareholder rights, and audit control are other material issues for the industry. Long-term business continuity is key, as it ensures alignment between stockholders and stakeholders.

Rating Sensitivities

- Sustained growth in revenue and profitability
- Further elongation of working capital cycle

Material Covenants

None

Liquidity Position Strong

The group's liquidity position is strong, supported by healthy retained cash flows and sufficient undrawn limits. The group's repayment obligation of Rs. 36.99 crore in FY23 (prov) will be comfortably serviced from the sufficient net cash accruals, which stood at Rs. 83.20 crore as of March 31, 2023 (prov). The fund-based limit remains moderately utilised at only 44.50 percent over the last six months ended April 2023. Further, the group maintains adequate liquidity in the form of mutual funds. However, the group's operations are working capital intensive, marked by a high gross current asset (GCA) of 205 days as of March 31, 2023 (prov) owing to significant advances to related parties. Going forward, Acuité believes the liquidity position of the group will be sustained by enhanced net cash accruals.

Outlook: Stable

Acuité believes that the outlook for the group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position, and healthy financial risk profile. The outlook may be revised to 'Positive' in the case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure, and working capital management. Conversely, the outlook may be revised to 'Negative' in the event of a decline in the company's revenues or profit margins, a deterioration in the group's financial risk profile, or a further 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.	2309.52	1175.31
PAT	Rs. Cr.	132.20	209.89
PAT Margin	(%)	5.72	17.86
Total Debt/Tangible Net Worth	Times	0.68	0.34
PBDIT/Interest	Times	7.42	9.41

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
21 Jun 2021	Proposed Working Capital Term Loan	Long Term	20.00	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	15.00	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	27.00	ACUITE BBB+ (Withdrawn)
	Proposed Bank Guarantee	Short Term	27.00	ACUITE A2 (Withdrawn)
29 Jun 2020	Proposed Bank Guarantee	Short Term	27.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	27.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Working Capital Term Loan	Long Term	20.00	ACUITE BBB+ Stable (Reaffirmed)
22 Apr 2020	Proposed Bank Guarantee	Short Term	27.00	ACUITE A2 (Assigned)
	Proposed Long Term Loan	Long Term	27.00	ACUITE BBB+ Stable (Assigned)
	Proposed Working Capital Term Loan	Long Term	35.00	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
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE A2 Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE BBB+ Stable Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB+ Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB+ Stable Assigned
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	62.00	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.25	ACUITE BBB+ Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.85	ACUITE BBB+ Stable Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.50	ACUITE BBB+ Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Srijita Chatterjee Lead Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.