

Press Release

Mahendra Sponge and Power Limited

February 09, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.204.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A Two plus**) on the Rs. 204.00 Cr bank facilities of Mahendra Sponge and Power Limited (MSPL). The outlook is '**Stable**'.

The rating on MSPL takes into account the strong business profile of the Mahendra Group, its revenue diversity across the steel and the power sector and its healthy financial position characterised by efficient working capital management. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About the company

Incorporated in 2002, Mahendra Sponge and Power Limited (MSPL) has an integrated steel manufacturing facility. The company is engaged in business of manufacturing of sponge iron, Billet, re-rolled products like MS Round, MS Square, MS Flat and MS Angles. MSPL also has a captive power plant with a capacity of 8 MW (4 MW Waste Heat recovery based and 4 MW Atmospheric Fluidized Bed Combustion). The power plant caters to entire power requirement of the company. In addition to this, MSPL is also engaged in trading of domestic and imported coal and iron ore pellets.

About the group

Established in 1978, Mahendra group was promoted by Mr. Ishwar Prasad Agarwal of Raipur, Chattisgarh. The group consists of Mahendra Sponge & Power Limited (MSPL), Animesh Ispat Private Limited (AIPL), Mahendra Power Private Limited (MPPL) and Mahendra Strips Private Limited (MPL). The promoter started their business activities with the trading of iron and steel. Currently, the overall operations of the group are managed by the family members of the Agrawal family along with a set of experienced professionals.

AIPL and MPPL are engaged in supplying power to Chhattisgarh State Power Distribution Co Ltd (CSPDCL) where they have a long term Power Purchase Agreement (PPA) for 20 years from 2008. Further, both the entities are engaged in trading of minerals and steel products. MPL was earlier engaged in manufacturing of re-rolled products like M.S Round, MS Square, MS Flat, MS Angles having rolling mill of capacity of 28,500 MTPA. The manufacturing unit has been sold in September'2019. Currently, MPL is presently engaged in trading of imported coal.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Mahendra Sponge & Power Limited (MSPL), Animesh Ispat Private Limited (AIPL), Mahendra Power Private Limited (MPPL) and Mahendra Strips Private Limited (MPL) together referred to as the 'Mahendra Group' (MG). The consolidation is in the view of common management, intercompany holdings, operational linkages between the entities and a similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

The Mahendra group has been in the iron and steel industry for over four decades. The long standing experience has been through their erstwhile partnership concern, Mahendra Steels which commenced operations in 1978. They had started off with trading of iron and steel products in 1978. Later in the 90's, the group has ventured into the manufacturing segment. Acuite believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. Currently, the group is headed by Mr. Manoj Kumar Agrawal, Mr. Mahendra Kumar Agrawal and Mr. Deepesh Agrawal, who have an experience of more than two decades in the iron and steel industry. Acuite derives comfort from the long experience of the promoters.

- **Strong business risk profile**

The strong business risk profile of the group is supported by the integrated nature of operations of the flagship entity, MSPL; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. The diversity in revenue streams of the group also augurs well. Also, the revenue of the group has improved to Rs.1468.09 Cr in FY2020 as compared to revenues of Rs.1102.04 Cr in FY2019 and Rs.553.44 Cr in FY2018, thereby registering a CAGR of 62.87 per cent in two years. Acuite believes that the sustainability in the revenue growth would be a key monitorable going forward. In addition to this, AIPL and MPPL both have signed power purchase agreements (PPA) with CSPDCL for 8.91MW for 20 years till 2028. Presently, both AIPL and MPPL are operating at a plant load factor (PLF) of over 80 per cent. Acuite believes that the PPA with CSPDCL with AIPL and MPPL provides comfortable revenue visibility, going forward.

- **Healthy financial risk profile**

The group's healthy financial risk profile is marked by high networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group increased to Rs.175.24 Cr as on March 31, 2020 from Rs.128.58 Cr as on March 31, 2019 due to accretion of reserves. Gearing of the group stood comfortable at 0.77 times as on March 31, 2020 as against 0.91 times as on March 31, 2019. The debt of Rs.135.27 Cr consists of working capital from the bank of Rs.82.30 Cr, unsecured loan of Rs.23.12 Cr, term loan of Rs.19.34 Cr and current maturity of term loan of Rs.10.50 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.99 times as on March 31, 2020 as against 2.04 times as on March 31, 2019. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 3.87 times as on March 31, 2020 and Debt Service Coverage Ratio at 2.40 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.43 times as on March 31, 2020. Acuite believes that going forward the financial risk profile of the group will remain healthy over the medium term, in the absence of any major debt funded capex plans.

- **Efficient working capital management**

The efficient working capital management of the group is marked by Gross Current Assets (GCA) of 89 days in 31st March 2020 as compared to 77 days in 31st March 2019. The debtor period stood comfortable at 15 days on 31st March 2020 as compared to 19 days on 31st March 2019. The inventory holding stood at 48 days on 31st March 2020 as compared to 77 days as on 31st March 2019. Acuite believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

Weakness

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

The industry remained 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.

Rating Sensitivity

- Sustainability in their growth in scale of operations while improving profitability margin
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.58 Cr as on March 31, 2020 as against long term debt repayment of only Rs.9.76 Cr over the same period. The cash and bank balances of the group stood at Rs.15.68 Cr as on March 31, 2020 as compared to Rs.7.23 Cr as on March 31, 2019. The efficient working capital management of the group is marked by Gross Current Assets (GCA) of 89 days in 31st March 2020 as compared to 77 days in 31st March 2019. The current ratio stood comfortable at 1.24 times as on March 31, 2020 as compared to 1.14 times as on March 31, 2019. The fund based limit remains utilised at 76 per cent over the nine months ended December, 2020. The group had availed loan moratorium, but not applied for additional COVID loan. Acuite believes that going forward, the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on Mahendra group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in 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 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 delay in completion of its projects or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1,468.09	1,102.04
PAT	Rs. Cr.	46.66	24.01
PAT Margin	(%)	3.18	2.18
Total Debt/Tangible Net Worth	Times	0.77	0.91
PBDIT/Interest	Times	3.87	3.05

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	990.07	895.69
PAT	Rs. Cr.	21.27	25.49
PAT Margin	(%)	2.15	2.85
Total Debt/Tangible Net Worth	Times	0.66	0.60
PBDIT/Interest	Times	3.10	3.93

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	28.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.50	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A-/Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A-/Stable (Assigned)
GECL (Proposed)	Not Applicable	Not Applicable	Not Applicable	6.90	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A-/Stable (Assigned)
WCTL	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A-/Stable (Assigned)
GECL (Proposed)	Not Applicable	Not Applicable	Not Applicable	3.88	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research

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