

Press Release

Mahendra Sponge and Power Limited

May 27, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	162.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	75.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	237.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE A' (read as ACUITE A)** and short term rating of **'ACUITE A1' (read as ACUITE A one)** to Rs. 237.00 Cr bank facilities of Mahendra Sponge and Power Limited. The outlook remains **'Stable'**.

The rating is driven by an improvement in the overall business risk profile of the group marked by sharp increase in the operating income along with an improvement in profitability arising from improved realizations as well as better cost efficiencies. The rating also factors in its experienced management, efficient collection mechanism and the healthy financial risk profile of the company characterized by strong debt coverage indicators. 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, Chattisgarh based 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 the 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

Incorporated in 2002, AIPL is engaged in business of generation of power from biomass based power plant of 10MW of which 8.91MW is supplied through firm power purchase agreement with Chhattisgarh State Power Distribution Co. Ltd. (CSPDCL) for a period of 20years. The firm has resumed the operations of the power plant since 2017 and is operating at full capacity. The company is also engaged in the business of trading in imported coal, export of iron ore fines and manufactured steel products.

Incorporated in 2008, MPPL is engaged in business of generation of power from biomass

based power plant of 10MW of which 8.91MW is supplied through firm power purchase agreement with Chhattisgarh State Power Distribution Co. Ltd. (CSPDCL) for a period of 20 years. The firm has resumed the operations of the power plant since 2017 and is operating at full capacity. The company is also engaged in the business of trading in imported coal, iron ore.

Incorporated in 1996, Mahendra Strips (MPL) is presently engaged in the business of imported coal. It is focused in procurement and supply of imported coal to various steel and power generation companies. The company was earlier engaged in manufacturing of ingots, and rerolled products like M.S Round, MS Square, MS Flat, MS Angles. The manufacturing unit was later sold off for the purpose of consolidation of business.

Analytical Approach

For arriving at this rating, Acuité 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 a long track record of over four decades in the iron and steel industry. The group started with trading of iron and steel products in 1978 through Mahendra Steels headed by Mr. Ishwar Prasad Agarwal. Later in the 90's the group forayed into manufacturing of steel. Acuité 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. Acuité derives comfort from the long experience of the promoters.

- **Strong business risk profile supported by diversified operations and locational advantage**

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.1805.58 Cr in FY2021 as compared to revenues of Rs.1468.09 Cr in FY2020 and Rs.1102.04 Cr in FY2019, thereby registering a CAGR of 28 per cent in two years. Further, the operating margin of the group improved to 7.25 per cent in FY2021 as compared to 5.26 per cent in the previous year. The PAT margins stood at 3.59 per cent in FY2021 as against 3.18 per cent as on FY2020. Acuité believes that the sustainability in the revenue growth and profitability margins 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 2038. Presently, both AIPL and MPPL are operating at a plant load factor (PLF) of over 90 per cent. Acuité believes that the PPA with CSPDCL with AIPL and MPPL provides comfortable revenue visibility, going forward.

Moreover, the group has a locational advantage as the plants are located in the industrial area of Raipur, Chhattisgarh, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

- **Healthy financial risk profile**

The group's financial risk profile is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group increased to Rs.275.96 Cr as on March 31, 2021 from Rs.175.24 Cr as on March 31, 2020 due to accretion of reserves.

Acuité has considered unsecured loans to the tune of Rs.35.87 Cr as on March 31, 2021 as part of networth. Gearing of the group stood comfortable at 0.94 times as on March 31, 2021 as against 0.77 times as on March 31, 2020. The gearing increased on account of additional export packing credit facility availed by AIPL to meet the high order book. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 2.48 times as on March 31, 2021 as against 1.99 times as on March 31, 2020. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 3.77 times as on March 31, 2021 and Debt Service Coverage Ratio at 2.42 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.26 times as on March 31, 2021.

In order to increase the value chain and improve profitability, the group is planning to undertake a capex in MSPL by installing an additional capacity.

Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, despite having debt funded capex plans.

• **Moderate working capital management**

The moderate working capital management of the group is marked by Gross Current Assets (GCA) of 107 days in 31st March 2021 as compared to 89 days in 31st March 2020. The moderate level of GCA days is on account of moderate inventory levels during the same period. The inventory holding stood moderate at 55 days in 31st March 2021 as compared to 48 days as on 31st March 2020. The debtor period stood comfortable at 23 days in 31st March 2021 as compared to 15 days in 31st March 2020. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and moderate inventory levels over the medium term.

Weaknesses

• **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

- Sustainability in revenue growth and margins
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.77.16 Cr as on March 31, 2021 as against long term debt repayment of Rs.10.50 Cr over the same period. The cash and bank balances of the group stood at Rs.20.26 Cr as on March 31, 2021 as compared to Rs.15.68 Cr as on March 31, 2020. The current ratio stood comfortable at 1.32 times as on March 31, 2021 as compared to 1.24 times as on March 31, 2020. The fund based limit remains utilised moderately at 66 per cent over the five months ended December, 2021. Further, the group has availed loan moratorium and applied for additional covid loan. However, working capital management of the group is moderate marked by Gross Current Assets (GCA) of 107 days in 31st March 2021 as compared to 89 days in 31st March 2020. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité 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, sound business position, healthy financial risk profile and moderate 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 Group's revenues or profit margins, or in case of deterioration in the Group's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1805.58	1468.09
PAT	Rs. Cr.	64.85	46.66
PAT Margin	(%)	3.59	3.18
Total Debt/Tangible Net Worth	Times	0.94	0.77
PBDIT/Interest	Times	3.77	3.87

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- 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>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Mar 2022	Working Capital Term Loan	Long Term	3.88	ACUITE A Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	6.90	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A1 (Reaffirmed)
	Working Capital Term Loan	Long Term	3.43	ACUITE A Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.75	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	22.50	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)

	Cash Credit	Long Term	42.50	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.54	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Working Capital Term Loan	Long Term	6.90	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Working Capital Term Loan	Long Term	3.88	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	17.50	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Upgraded from ACUITE A2+)
04 Feb 2022	Cash Credit	Long Term	7.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Bank Guarantee	Short Term	5.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	22.50	ACUITE A Stable (Assigned)
		Short		
	Letter of Credit	Term	10.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Working Capital Term Loan	Long Term	1.75	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Term Loan	Long Term	28.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Proposed Bank Facility	Long Term	0.54	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	42.50	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	17.50	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Working Capital Term Loan	Long Term	3.43	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	10.50	ACUITE A Stable (Assigned)
	Proposed Cash Credit	Long Term	6.90	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	42.50	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.22	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE A- Stable (Reaffirmed)

22 Mar 2021	Cash Credit	Long Term	17.50	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	3.88	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Working Capital Term Loan	Long Term	1.75	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE A- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.75	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A2+ (Assigned)
	Working Capital Term Loan	Long Term	1.75	ACUITE A- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.75	ACUITE A- Stable (Assigned)
09 Feb 2021	Term Loan	Long Term	28.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.22	ACUITE A- Stable (Assigned)
	Proposed Cash Credit	Long Term	6.90	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	17.50	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	42.50	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	17.50	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Assigned)
	Proposed Cash Credit	Long Term	3.88	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A1 Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.50	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	28.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.75	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	6.90	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.43	ACUITE A Stable Reaffirmed

State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	3.88	ACUITE A Stable Reaffirmed
---------------------	----------------	---------------------------	---------------	---------------	---------------	------	--------------------------------------

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in</p> <p>Kaustav Saha Assistant Manager-Rating Operations Tel: 022-49294065 kaustav.saha@acuite.in</p>	<p>Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in</p>

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.