

Press Release

Mahendra Sponge and Power Limited

March 22, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE A Stable Assigned	-
Bank Loan Ratings	162.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	75.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	262.00	-	-

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 and assigned the long-term rating of '**ACUITE A**' (read as **ACUITE A**) to Rs. 25.00 Cr bank facilities of Mahendra Sponge and Power Limited. The outlook remains '**Stable**'.

The rating takes into cognizance the sound business risk profile of the group buoyed by its improving revenue trend driven by rise in sale volume and average realization of steel products as well as better cost efficiencies. The rating is also supported by the management's long standing experience and healthy financial position characterized by healthy debt coverage indicators. These strengths are however, partly offset by the intensive working capital management of the group and cyclical nature of the steel industry.

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 the 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 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, 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.

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

- **Established track record of operations and extensive experience of promoters**

The Mahendra group has a long track record of over four decades in the iron and steel industry. Acuité believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations. The key promoters of the group, Mr. Manoj Kumar Agrawal, Mr. Mahendra Kumar Agrawal and Mr. Deepesh Agrawal, have been associated with the iron & steel industry for two decades. Acuité derives comfort from the long experience of the promoters.

- **Sound business risk profile supported by sharp increase in operating income**

The sound business risk profile of the group is supported by the sharp increase in the scale of operations. The revenue of the group increased to Rs.2285.63 Cr in FY2022 as compared to revenues of Rs.1805.58 Cr in FY2021 and Rs.1468.09 Cr in FY2020, thereby registering a 2 year CAGR of 24.77 per cent in this year. Moreover, the group has achieved around Rs. 2543.99 Cr till December 2022(Provisional). The growth in revenue is primarily on account of healthy demand, better market condition, better realization and rise in the trading of iron ore fines sales in the overseas market.

The operating margin of the group increased to 10.05 per cent in FY2022 as compared to 7.25 per cent in FY2021. The PAT margins stood at 5.98 per cent in FY2022 as against 3.59 per cent in FY2021. The improvement in the profitability margin in FY2022 is on account of the exceptional increase in trade of coal, due to the shortage of coal during FY 22, demand for imported coal had increased substantially. The RoCE levels stood at a comfortable level of about 30.30 per cent in FY2022 as against 29.08 per cent in FY2021. However, the operating margin of the group stood at 5.70 per cent in 9M FY23(Provisional) and the PAT margin stood at 2.89 percent in 9M FY23(Provisional). The profitability margin in FY2023 declined due to the increase in trading volume of coal and reduction in trading of iron ore on account of the duty charge levied on iron ore.

Acuité believes that the sustainability in the revenue growth and improvement in the profitability margin would be a key monitorable going forward and also that the diversified product range of the group will help to maintain its business risk profile over the medium term.

• **Stable offtake and locational advantage**

AIPL and MPPL both have signed power purchase agreements (PPA) with CSPDCL for 8.91MW for 20 years till 2038. Presently, AIPL is operating at plant load factor (PLF) of 70.18 per cent and MPPL is operating at plant load factor (PLF) of 92.46 per cent. Currently, the cost for supply of contracted energy is Rs.6.76/kWh. Acuité believes that the PPA with CSPDCL with AIPL and MPPL provides comfortable revenue visibility, going forward.

The group has a locational advantage as the plants are located in the industrial area of Raipur, Chattisgarh, 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 strong network, moderate gearing and healthy debt protection metrics. The tangible net worth of the group increased to Rs.437.85 Cr as on March 31, 2022 from Rs.275.96 Cr as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans of Rs.61.19 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the group stood moderate at 1.11 times as on March 31, 2022 as against 0.94 times as on March 31, 2021. 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 high at 2.43 times as on March 31, 2022 as against 2.03 times as on March 31, 2021. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio at 5.90 times as on March 31, 2022 and Debt Service Coverage Ratio at 3.52 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.31 times as on March 31, 2022. 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.

The group has an ongoing capex in MSPL by installing an additional capacity of sponge iron of 650 TPD, Ferro Alloys (9Mva*2), 132 KVA Line and Water Supply line and a power plant of 25MW. The estimated project cost is Rs.325 Cr, against which the sanctioned term loan of bank of Rs.210 Cr and remaining portion from the promoters' contribution of Rs.115 Cr. The commercial operation date of the project is April 2024.

Weaknesses

• **Working capital intensive nature of operations**

The working capital intensive nature of operations of the group is marked by high Gross Current Assets (GCA) of 174 days in 31st March 2022 as compared to 106 days in 31st March 2021. The high GCA days are primarily on account of a high proportion of other current assets consisting of other loans and advances. Further, the inventory holding stood moderate at 77 days in 31st March 2022 as compared to 55 days in 31st March 2021. The group maintains inventory due to availability of sufficient raw materials and by virtue of the manufacturing unit being located to the close vicinity of iron-ore mines of Jharkhand and Odisha. However, the debtor period stood comfortable at 21 days in 31st March 2022 as compared to 23 days in 31st March 2021. Acuité believes that the working capital operations of the group will remain at same level as evident from intensive inventory levels over the medium term.

Rating Sensitivities

- Growth in the scale of operations while improving profitability margin
- Elongation of working capital cycle
- Timely completion of the ongoing capex

Material covenants

None

Liquidity Position

Adequate

The group's liquidity is adequate marked by steady net cash accruals of Rs.150.68 Cr as on March 31, 2022 as against long term debt repayment of Rs.13.96 Cr over the same period. The cash and bank balances of the group stood at Rs.96.27 Cr as on March 31, 2022 as compared to Rs.20.26 Cr as on March 31, 2021. The current ratio remains comfortable at similar level of 1.31 times as on March 31, 2022 and as on March 31, 2021. The fund based limit remains utilised at 31.50 per cent over the six months ended January, 2023. However, working capital management of the group is marked by high Gross Current Assets (GCA) of 174 days on 31st March 2022 as compared to 106 days on 31st March 2021. 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 risk profile and healthy financial risk profile. 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 further elongation in its working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	2285.63	1805.58
PAT	Rs. Cr.	136.57	64.85
PAT Margin	(%)	5.98	3.59
Total Debt/Tangible Net Worth	Times	1.11	0.94
PBDIT/Interest	Times	5.90	3.77

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
27 May 2022	Working Capital Term Loan	Long Term	3.88	ACUITE A Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.43	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.54	ACUITE A Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A1 (Reaffirmed)
	Working Capital Term Loan	Long Term	6.90	ACUITE A Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.75	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	42.50	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	22.50	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	17.50	ACUITE A Stable (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	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)
		Long		

07 Mar 2022	Cash Credit	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)
04 Feb 2022	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)
	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+)
	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)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Proposed Cash Credit	Long Term	6.90	ACUITE A- Stable (Reaffirmed)

22 Mar 2021	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)
	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)
09 Feb 2021	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)
	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	10.00	ACUITE A2+ (Assigned)

	Letter of Credit	Term 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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	42.50	ACUITE A Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A1 Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A1 Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.29	ACUITE A Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	28.00	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	6.90	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.43	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.88	ACUITE A Stable Reaffirmed

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About Acuité Ratings & Research

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