



Press Release
MAITHAN STEEL AND POWER LIMITED
September 29, 2023
Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	378.47	ACUITE A+ Stable Upgraded	-
Bank Loan Ratings	40.00	-	ACUITE A1+ Assigned
Bank Loan Ratings	86.53	-	ACUITE A1+ Upgraded
Total Outstanding Quantum (Rs. Cr)	505.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A+**' (read as **ACUITE A plus**) from '**ACUITE A**' (read as **ACUITE A**) and the short-term rating to '**ACUITE A1+**' (read as **ACUITE A one plus**) from '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 465.00 Cr bank facilities of Maithan Steel and Power Limited (MSPL). The outlook is '**Stable**'.

Acuite has also assigned the short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) to the Rs. 40.00 Cr bank facilities of Maithan Steel and Power Limited (MSPL).

Rationale for rating upgrade

The rating upgrade of MSPL considers the sustainable improvement in the scale of operations driven by increased production capacities and utilisation, improved working capital management and overall healthy financial risk profile. The operating income of the company improved to Rs. 1688 Cr in FY2023 (Provisional) as against Rs. 1110 Cr in FY2022. The growth of ~52 percent YOY in FY2023 is primarily on account of increased sale of TMT Bars supported by an increase in the overall production and improved price realisation during the year. The company achieved a significant milestone in the third quarter of the fiscal year 2022 by successfully adding 1,87,500 metric tons per annum (MTPA) of Billets and 1,47,500 metric tons of TMT Bars, and FY2023 marked the first full year of operations with these expanded capacities. As a result, the company's current production capacity stands at 3,75,000 MTPA for Billets and 2,97,000 MTPA for TMT Bars in FY2023. The operating margins of the company moderated to 6.27 percent in FY2023 (Provisional) from 8.89 percent in FY2022. The moderation in margins is attributable to increased raw material costs. Due to limited in-house capacity of sponge iron (a key input material for billet production), the company met the increased input material requirement from market, which led to reduced margins due to costlier purchases during the year. The company is currently undertaking capital expenditure towards enhancing its sponge iron production capacities along with setting up of a waste heat recovery boiler (WHRB) captive power plant. The capex, post its completion is estimated to aid the company in improving its operating margins due to increased cost efficiencies on account of reduced material and power costs. The capex is expected to be completed by March, 2025.

The working capital cycle of MSPL also recorded an improvement in FY2023 (Provisional) marked by improved Gross Current Assets (GCA) days and negligible bank limit utilisation. The GCA days stood at 61 days for FY2023 (Provisional) as against 103 days for FY2022. The

average bank limit utilization for 6 months' period ended August 2023 stood low at 0.19 percent.

The rating continues to draw comfort from the company's experienced management, established track record of operations and healthy financial risk profile which is estimated to be maintained despite of increase in the overall debt profile towards the ongoing capex.

Going forward, ability of the company to maintain its scale of operations while improving the profitability margins along with ability to maintain the efficient working capital cycle and timely completion of the ongoing capex will remain a key rating sensitivity factor.

About the Company

MSPL incorporated in 2001, is a West Bengal based semi- integrated steel plant, promoted by Mr. Binod Kumar Agarwalla. The company is headed by the second-generation promoters, Mr. Madhur Agarwalla and Mr. Kaushal Agarwalla. The company has two manufacturing units located in Neturia, West Bengal for sponge iron and in Salanpur, West Bengal for billet and TMT bars. MSPL has a capacity of 60,000 MTPA of sponge iron, 375,000 MTPA of billets and 297,000 MTPA of TMT bars. The company sells its TMT bars in the name of 'Maithan TMT 600' to more than 800 dealers spread in the regions of West Bengal, Jharkhand, Bihar, Uttar Pradesh and north-eastern states.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of MSPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

MSPL has an operational track record of over two decades in the iron and steel industry. The company is headed by the second-generation promoters, Mr. Madhur Agarwalla and Mr. Kaushal Agarwalla, who possess an extensive experience of more than a decade and are actively involved in day-to-day operations of the company. The extensive experience of the promoters has enabled MSPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that MSPL will continue to benefit from its experienced management and established track record of operations.

Healthy financial risk profile

Financial risk profile of MSPL is healthy marked by healthy net worth, low gearing and comfortable debt protection metrics. The tangible net-worth of the company stood healthy at Rs.341 Cr as on 31 March, 2023 (Provisional) as against Rs.277 Cr as on 31 March, 2022 due to healthy accretion of profits to reserves. It also includes the amount of Rs.4.69 Cr been treated as quasi equity which consist of equity component of optionally convertible and preference shares issued by the company. The total debt of the company stood at Rs.99 Cr as on 31 March, 2023 (Provisional) as against Rs.78 Cr as on March 31, 2022. Total debt as on March 31, 2023 consists of long term bank borrowings of Rs.93 Cr and the debt component of optionally convertible and non-convertible preference shares of Rs.6 Cr. Despite of increase in the company's overall debt profile during the year for the purpose of its ongoing capex, the gearing (debt-equity) stood low at 0.29 times as on 31 March, 2023 (Provisional) as against 0.28 times as on 31 March, 2022 and is further expected to remain low over the medium term in the absence of any further plans to raise additional debt apart from draw down of balance debt availed towards the ongoing capex.

The interest coverage ratio and DSCR though moderated, however remained comfortable at 17.89 times and 6.93 times for FY2023 (Provisional) as against 25.61 times and 18.32 times for FY2022. The Net Cash Accruals to Total debt stood improved at 0.81 times for FY2023 (Provisional) as against 0.94 times for FY2022. The Total outside liabilities to Tangible net worth stood at 0.50 times for FY2023 (Provisional) as against 0.53 times for FY2022. The Debt-EBITDA ratio stood increased at 0.91 times for FY2023 (Provisional) as against 0.79 times for FY2022.

Acuité believes that the financial risk profile of MSPL will remain healthy over the medium term due to its low gearing, healthy tangible net worth and comfortable debt protection metrics.

Efficient working capital operations

The working capital operations of MSPL are efficient marked by its improved Gross Current Assets (GCA) of 61 days for FY2023 (Provisional) as against 103 days for FY2022. This is on account of its improved inventory and receivables cycle which stood at 28 days and 20 days for FY2023 (Provisional) as against 54 days and 33 days for FY2022. The creditors cycle of the company stood at 7 days for FY2023 (Provisional) as against 8 days for FY2022. The average bank limit utilization for 6 months' period ended August 2023 stood negligible at 0.19 percent.

Acuité believes that the ability of MSPL to maintain the efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Improved scale of operations albeit moderation in profitability margins

MSPL reported an increase in its revenue of Rs.1688 Cr for FY2023 (Provisional) as against Rs.1110 Cr for FY2022 which is a growth of ~52 percent and has achieved this primarily on account of increase in the sale of its TMT Bars followed by an increase in the overall production and improved price realisation during the year. The growth in the company's revenue is also led by an increase in the company's installed capacity during the year of producing Billets and TMT Bars. The company achieved a significant milestone in the third quarter of the fiscal year 2022 by successfully adding 1,87,500 metric tons per annum (MTPA) of Billets and 1,47,500 metric tons of TMT Bars, and FY2023 marked the first full year of operations with these expanded capacities. As a result, the company's current production capacity stands at 3,75,000 MTPA for Billets and 2,97,000 MTPA for TMT Bars in FY2023. The company has majorly shifted its focus towards TMT Bars due to their high market demand and profitability. On the other hand, Sponge Iron and Billets are intermediate products which are being primarily used for captive consumption within the company's manufacturing process to produce TMT bars. The company is channelling these intermediate products for in-house TMT bar production to meet market demands and maximize the profits.

Despite of increase in the overall scale of operations, the operating margin of the company however remained subdued at 6.27 percent in FY2023 (Provisional) as against 8.89 percent in FY2022. The moderation in operating margins is attributable to increased raw material costs. Due to limited in-house capacity of sponge iron (a key input material for billet production), the company met the increased input material requirement from market, which led to reduced margins due to costlier purchases during the year. Further, the net profit margin of the company also remained subdued at 3.80 percent in FY2023 (Provisional) as against 5.64 percent in FY2022 on account of increase in the interest cost and depreciation charge during the year.

For the current year as on Q1FY2024, company has achieved revenue of Rs.464 Cr as against Rs.461 Cr as on Q1FY2023. Going forward, the company is undertaking the backward integration project of increasing the sponge iron capacities along with setting up of a Waste Heat Recovery Boiler (WHRB) captive power plant which will lead to improved cost efficiencies on account of reduced material and power costs. The capex is estimated to be completed by March, 2025.

Acuité believes that the ability of MSPL to maintain its scale of operations while improving the profitability margins will remain a key rating sensitivity factor.

Weaknesses

Implementation risk of ongoing capex

MSPL has initiated a backward integration project that involves the establishment of a 1*350 TPD DRI Kiln, a 20MW captive power plant, and 2*9MVA submerged arc furnaces to produce ferro alloys. The project was initiated by the company in May 2022 and the anticipated date of completion is March 2025. The total cost of the project is Rs.325.46 Cr, funded by Rs.220.00

Cr of term loan and balance amount through own sources. The cost incurred by the company as on August 31, 2023 is Rs.152.47 Cr which is ~46.85 percent of the total project cost.

Acuité believes that timely completion of the ongoing project without significant cost overruns will be critical towards improvement in the business risk profile of the company over the medium term and thus will remain a key rating sensitivity factor.

Intense competition and inherent cyclical nature in the steel industry

MSPL is operating in a competitive and fragmented nature of industry due to the presence of many unorganized players on account of low entry barriers. Moreover, demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the profit margins and sales of the company remains exposed to inherent cyclical nature in these sectors.

Rating Sensitivities

- Ability to maintain the scale of operations while improving the profitability margins
- Ability to maintain the efficient working capital cycle
- Timely completion of the ongoing capex

All Covenants

Not applicable

Liquidity Position - Strong

MSPL has strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.76 Cr to Rs.80 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation in the range of Rs.1 Cr to Rs.10 Cr during the same period. Going forward, the NCA are expected to be in the range of Rs.86 Cr to Rs.96 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.10 Cr to Rs.11 Cr during the same period. The working capital operations of the company are efficient marked by its gross current asset (GCA) days of 61 days for FY2023 (Provisional). The average bank limit utilization for 6 months' period ended August 2023 stood negligible at ~0.19 percent. Current ratio stands at 4.18 times as on 31 March 2023 (Provisional). The company has maintained cash & bank balance of Rs.14 Cr in FY2023 (Provisional).

Acuité believes that the liquidity of MSPL is likely to remain strong over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that MSPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations, strong business risk profile, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1687.78	1109.74
PAT	Rs. Cr.	64.14	62.56
PAT Margin	(%)	3.80	5.64
Total Debt/Tangible Net Worth	Times	0.29	0.28
PBDIT/Interest	Times	17.89	25.61

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
03 Oct 2022	Proposed Bank Facility	Short Term	13.19	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	18.79	ACUITE A Stable (Reaffirmed)
	Bank Guarantee	Short Term	23.00	ACUITE A1 (Reaffirmed)
	Proposed Cash Credit	Long Term	35.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	43.62	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	23.00	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
	Proposed Bank Facility	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Proposed Term Loan	Long Term	220.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	16.40	ACUITE A Stable (Reaffirmed)
22 Sep 2022	Proposed Bank Facility	Long Term	0.60	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	23.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	55.00	ACUITE A Stable (Reaffirmed)
	Bank Guarantee	Short Term	23.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A1 (Reaffirmed)
	Cash Credit	Long Term	16.40	ACUITE A Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Reaffirmed)
10 Aug	Letter of Credit	Short Term	10.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	23.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	20.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	23.00	ACUITE A Stable (Assigned)
		Long		ACUITE A Stable

2021	Cash Credit	Term	16.40	(Assigned)
	Term Loan	Long Term	55.00	ACUITE A Stable (Assigned)
	Proposed Bank Facility	Long Term	0.60	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A1 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE A1+ Upgraded (from ACUITE A1)
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	33.00	ACUITE A1+ Upgraded (from ACUITE A1)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	63.00	ACUITE A+ Stable Upgraded (from ACUITE A)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A+ Stable Upgraded (from ACUITE A)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	26.40	ACUITE A+ Stable Upgraded (from ACUITE A)
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	21.53	ACUITE A1+ Upgraded (from ACUITE A1)
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A1+ Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.34	ACUITE A+ Stable Upgraded (from ACUITE A)
HDFC	Not	Term Loan	Not	Not	Not	Simple	45.00	ACUITE A+ Stable Upgraded

Bank Ltd	Applicable		available	available	available			(from ACUITE A)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	37.73	ACUITE A+ Stable Upgraded (from ACUITE A)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	75.00	ACUITE A+ Stable Upgraded (from ACUITE A)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	100.00	ACUITE A+ Stable Upgraded (from ACUITE A)

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