Press Release
HI-TECH POWER AND STEEL LIMITED
February 04, 2022
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	158.00	ACUITE A- | Stable | Assigned	-
Bank Loan Ratings	60.00	-	ACUITE A2+ | Assigned
Total Outstanding Quantum (Rs. Cr)	218.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale
Acuité 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)** to the Rs. 218.00 Cr bank facilities of Hi-Tech Power and Steel Limited (HTPSL). The outlook is **'Stable'**.
The rating on Nandan Group takes into account its strong business risk profile as reflected from its integrated nature of operations in the steel sector and a strong brand presence in the TMT segment. Further, it is also supported by the management's long track record in the sector, efficient collection mechanism, healthy financial position characterized by healthy networth base and the ongoing capacity expansion programme in HTPSL. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About Company
Incorporated in 2004, Nandan group was promoted by Mr. Ashok Kumar Agarwal, Mr. Binod Kumar Agarwal, Mr. Sanjay Kumar Kariwalla, Mr. Vikash Kumar Agarwal and Mr. Manish Kumar Agarwal of Raipur, Chattisgarh. HPSL was incorporated in the year 2000. It has commenced production in 2004 and is engaged in manufacturing of sponge iron, billet, and TMT bars. It has a capacity of 60,000 MTPA of Sponge Iron, Billets of 1,08,000 MTPA and TMT of 150000 MTPA. Its facility located in Raipur (Chhattisgarh). The TMT bars are sold under the brand name 'Nandan TMT'. The company has also set-up a 10MW captive power plant to meet its power requirements.

About the Group
The group consists of one more entity namely Nandan Steel and Power Private Limited which is the flagship company and currently has three fabrication units, two galvanizing units; two rolling mills for structural steel and a wire rod manufacturing unit. The group has a 10 MW captive power plant set up in Raipur along with a 2 MW solar power plant.

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 Nandan Steel and Power Limited (NSPL) and Hi-Tech Power and Steel (HTPSL) together referred to as the 'Nandan Group' (NG). The consolidation is in the view of common promoters and management, intercompany holdings, operational linkages between the entities and a similar line of business.

Key Rating Drivers

Strengths

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

The group was set up by Mr. Ashok Kumar Agarwal, Mr. Binod Kumar Agarwal, Mr. Sanjay Kumar Kariwalla, Mr. Vikash Kumar Agarwal and Mr. Manish Kumar Agarwal having a long operational track record in the iron & steel industry of two decades. This experience has helped the group to get empanelled with the Indian Railways as well as various Electricity Transmission Companies across India which gives it an edge over its competitors. It has a diversified product profile of TMT manufacturing, structural products, wire rod, galvanising units and fabrication units under the brand name "Nandan".

Acuité believes that its established market presence and the promoter's vast experience has enabled the group to build healthy relationships with customers and secures repeat orders.

- **Strong business risk profile supported by integrated nature of operations and locational advantage**

The strong business risk profile of the group is supported by the integrated nature of operations of the flagship entity, NSPL; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. The group has a diversified product mix including wire rod and galvanized steel of various specifications, which have multiple key user industries. The group has registered revenues of Rs. 912.43 Cr in FY2021 as compared to revenues of Rs.1040.60 Cr in FY2020. The decline in revenues in FY2021 is on account of lower volume growth in electrical towers segment meant for railways, telecom and power companies in FY21 as compared to last year. Also, due to Covid-19 induced lockdown, the group sales got impacted in the first quarter of FY2021 which has added to the decline in overall revenues. However, the group has been able to regain the growth trajectory with sales of around Rs. 1134.02 Cr till December 2021(Provisional), after recent synergy with Roopalaxmi Industries India Private Limited (RIIPL). Going forward, once the new capacities commence, the company's revenue is likely to increase significantly in the near future.

The operating margin of the group rose to 7.98 per cent as on 31st March, 2021 from 6.20 per cent in FY2020. The PAT margin of the group increased to 3.02 per cent in FY2021 from 1.30 per cent in FY2020. The Return on Capital Employed (ROCE) of the group stood moderate at 10.29 per cent as on FY2021 as compared to 10.52 per cent as on FY2020. In FY2020, the profitability margins declined due to turmoil in the steel industry, nonetheless, in FY2021, there were growth in profitability margins, primarily on account of high demand and better pricing power.

In addition to this, 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.

Acuité believes that the Nandan group's business risk profile would remain strong and its scale of operations would improve over the medium term backed by their domain expertise and capacity additions.

- **Healthy financial risk profile albeit with significant capex plans**

The group's financial risk profile is marked by healthy networth base, comfortable gearing and moderate debt protection metrics. The tangible net worth of the group improved to Rs.299.84 crore as on March 31, 2021 from Rs.258.15 crore as on March 31, 2020 due to accretion of reserves. Acuité has considered unsecured loans of Rs.14.09 Cr as on March 31, 2021, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the firm stood below unity at 0.89 as on March 31, 2021 as compared to 0.81 as on March 31, 2020, mainly led by additional loan of RIIPL post acquisition of around Rs 27 core and guaranteed emergency credit line (GECL) to support the operations. The total outside Liabilities/tangible net worth (TOL/TNW) stood at 1.33 times as on March 31, 2021 as against 1.25 times as on March 31, 2020. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio at 2.77 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.82 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.17 times as on March 31, 2021. Acuité believes that going forward, despite having debt funded capex plans, the financial risk profile of the group will remain healthy backed by steady accruals.

Roopalaxmi Industries India Private Limited (RIIPL), a non-operational entity was setting up a billet and wire rod plant near the existing plant of NSPL for which the later had given corporate guarantee on term loan taken by RIIPL in FY2020. Later in Feb 2021, NSPL purchased assets of RIIPL for a total consideration of Rs 35 crore and assets of RIIPL was commissioned by NSPL from March 2021. The main reason behind the acquisition is backward integration in terms of addition of furnace and rolling capacities as well as the group will benefit from saving in power cost which arise from the benefits of power supply from 132 KVA power line established in Nandan Steels and Power Limited (NSPL).

In order to ramp up production capacity and improve profitability margins, the group had undertaken planned capex in HTPSL for backward integration in the form of ramping up the sponge iron and captive power plant at a total project cost of Rs 55.41 Cr of which Rs.35 Cr would be funded through term loan and balance from promoters' sources. The funding risk is mitigated with the financial tie up completed for the entire quantum of Rs 35 crore of term loan. The present capex will help increase the sponge iron manufacturing capacity to more than 90000 MPTA from 60000 MTPA. Also power plant of 2MW WHRB will help in significant saving in power cost.

Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, despite the planned capex in HTPSL.

- **Moderate working capital management**

The working capital management of the group is moderate marked by Gross Current Assets (GCA) of 145 days in 31st March 2021 as compared to 102 days in 31st March 2020. The moderate level of GCA days is on account of high inventory levels during the same period and substantial amount of security deposits with CSEB. The inventory holding stood moderate at 97 days as on 31st March 2021 as compared to 59 days as on 31st March 2020 since the company has a diversified product profile, and has to maintain considerable amount of inventory both in terms of raw materials and finished goods. Further, the inventory in the form of transmission towers have to be kept ready in advance which are supplied only after inspection by the concerned customers. However, the debtor period stood low at 26 days as on 31st March 2021 as compared to 27 days as on 31st March 2020.

Acuité believes that the working capital operations of the group will remain almost at the same levels as evident from the high level of inventory period over the medium term.

Weaknesses

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

The group's performance remains vulnerable to cyclicality in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. While there has been a significant push by the government on steel-intensive sectors such as railways and infrastructure, any sustained downturn in demand will adversely impact performance of steel companies.

The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies. Also, steel imports from other countries, mainly China, add to the competition. Additionally the domestic steel sector is fairly capital intensive.

Rating Sensitivities

- Sustainability in revenue growth and margins
- 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 high net cash accruals stood at Rs.46.11 Cr as on March 31, 2021 as against long term debt repayment of Rs.28.33 Cr over the same period. The current ratio stood moderate at 1.29 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.0.70 Cr as on March 31, 2021 as compared to Rs.0.62 Cr as on March 31, 2020. The group has not availed loan moratorium but applied for additional Covid loan of Rs 40 Cr. However, the fund based limit remains utilised at 85 per cent over the eight months ended November, 2021. Acuité believes that going forward the group will maintain strong liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the 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.	912.43	1040.60
PAT	Rs. Cr.	27.59	13.57
PAT Margin	(%)	3.02	1.30
Total Debt/Tangible Net Worth	Times	0.89	0.81
PBDIT/Interest	Times	2.77	2.44

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

Care Ratings, vide its press release dated May 28, 2021 had reaffirmed the rating of Hi-Tech Power and Steels Limited to 'CARE BB+/Stable/A4+; ISSUER NOT COOPERATING'.

Any Other Information

Not Applicable

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.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

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

Rating History :

Not Applicable

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/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ | Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ | Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	22.42	ACUITE A- | Stable | Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	3.01	ACUITE A- | Stable | Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+ | Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2+ | Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.59	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	15-03-2019	10.45	21-02-2024	4.08	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	03-01-2020	10.10	30-06-2025	2.90	ACUITE A- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	30-09-2021	8.60	31-07-2027	20.00	ACUITE A- | Stable | Assigned
State Bank of India	Not Applicable	Term Loan	31-01-2022	9.00	30-04-2028	15.00	ACUITE A- | Stable | Assigned

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About Acuité Ratings & Research

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