

Press Release

Nandan Steels And Power Limited

February 16, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	210.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	60.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	270.00	-	-

Rating Rationale

Acuite has reaffirmed 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. 270.00 Cr bank facilities of Nandan Steel and Power Limited (NSPL). The outlook is '**Stable**'.

Rating Rationale

The rating takes into account its sound business profile of the company marked by its long operational track record along with integrated nature of operation. The company had registered strong operational performance during FY22 driven by rise in sale volume and average realization of steel products. The rating also considers the company's healthy financial risk profile characterized by healthy networth base and moderate working capital management. These strengths are however, partly offset by the decline in profitability margin, significant debt funded capex undertaken by the group, cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

About the Company

Nandan Steel and Power Private Limited is the flagship company and currently has three fabrication units, two galvanizing units; two rolling mills for structural steel, Steel melting Shop (MS Billets) and a wire rod manufacturing unit. The group has a 12 MW captive power plant set up in Raipur along with a 2 MW solar power plant.

About the Group

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. The group consists of one more entity namely Hi-Tech Power and Steel (HTPSL). 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 90,000 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 12MW captive power plant and 2 solar power plant to meet its power requirements.

Analytical Approach

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

Extent of Consolidation - Full

Key Rating Drivers

Strengths

Long track record and experienced promoters with Integrated operations

The group is managed by Mr. Ashok Kumar Agarwal, Mr. Binod Kumar Agarwal, Mr. Sanjay Kumar Kariwalla, Mr. Vikash Kumar Agarwal and Mr. Manish Kumar Agarwal of Raigarh (Chhattisgarh), who have two decades of experience in the iron & steel business. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers across the country. It has a diversified product profile of TMT manufacturing, structural products, wire rod, galvanising units and fabrication units under the brand name "Nandan". Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

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; this enhances the operating efficiencies. Also, the revenue of the group increased to Rs. 1396.82 Cr in FY2022 as compared to revenues of Rs.912.43 Cr in FY2021. Moreover, the group has achieved around Rs. 1339.42 Cr till December 2022(Provisional). Going forward, once the new capacities commence, the group's revenue is likely to increase significantly in the near future in addition to the expansion of sales through the regular and expanded channels of dealer distributors.

Acuité believes that the sustainability in the revenue growth 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. In addition to this, the company has a locational advantage as the plants are located in the industrial area of Raipur, 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.

The operating margin of the group declined 5.90 per cent in FY2022 as compared to 7.98 per cent in the previous year. The marginal decline in the margin is due to the base effect due to the significant increase in realisations. The dip in margins have also been due to the change in the product mix. The PAT margins stood at 1.76 per cent in FY2022 as against 3.02 per cent as on FY2021. The ROCE levels stood at a comfortable level of about 10.07 per cent in FY2022 as against 10.29 per cent in FY2021.

Healthy financial risk profile

The group's healthy financial risk profile is marked by healthy network base, comfortable gearing and moderate debt protection metrics. The tangible net worth of the group improved to Rs.336.76 crore as on March 31, 2022 from Rs.299.84 crore as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans of Rs.26.39 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 comfortable at unity as on March 31, 2022 as compared to 0.89 as on March 31, 2021, although there was some increase in the debt levels in FY2022 due to the higher working capital requirements and planned capex towards a new plant in NSPL. Acuité notes that the company has been regularly incurring capex in the last few years for debottlenecking and improving efficiency. The Total

outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.44 times as on March 31, 2022 as against 1.33 times as on March 31, 2021. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio at 2.75 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.25 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.13 times as on March 31, 2022. Acuité expects while these new capex initiatives would increase the debt levels, healthy revenues and profits generated from the existing business are expected to adequately support the financial profile over the medium term, followed by limited debt repayment obligations.'

The group had undertaken planned capex in NSPL for Pipe mill and galvanizing project which will be operational from July, 2023 and capacity will be 1,50,000 MTPA. Out of 1,50,000 capacity, 50% will be sourced from captive consumption and remaining from the external market. Further, the product will be sold in the external market.

The total cost of the project for Pipe mill and Galvanizing section is Rs 60.15 crores which will be funded through debt of Rs 41 Cr and balance from promoters' sources.

Acuité does not foresee any material impact on group's capital structure and debt metrics. Higher-than-expected debt-funded capex resulting in deterioration in debt metrics and capital structure will remain a key rating sensitivity factor.

Moderate working capital management

The working capital management of the group is moderate marked by Gross Current Assets (GCA) of 118 days in 31st March 2022 as compared to 145 days in 31st March 2021. The moderate level of GCA days is on account of high inventory levels during the same period. The inventory holding stood at 81 days as on 31st March 2022 as compared to 97 days as on 31st March 2021 since the group has a diversified product profile, and has to maintain considerable amount of inventory both in terms of raw materials and finished goods. However, the debtor period stood low at 18 days as on 31st March 2022 as compared to 26 days as on 31st March 2021. 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 steel rolling industry remains 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. Further, 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. Additionally, prices of raw materials and products are highly volatile in nature. Business operations also face competition from cheaper Indonesian and Chinese imports. Substantial increase in imports may adversely impact realisation and volumes, and hence, remains a key monitorable.

ESG Factors Relevant for Rating

Not Applicable

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 high net cash accruals which stood at Rs.43.22 Cr as on March 31, 2022 as against long term debt repayment of Rs.28.33 Cr over the same period. The current ratio stood moderate at 1.39 times as on March 31, 2022. The cash and bank balances of the group stood at Rs.0.20 Cr as on March 31, 2022 as compared to Rs.0.70 Cr as on March 31, 2021. The group has not availed loan moratorium but applied for additional Covid loan of Rs 40 Cr. However, the fund based limit remained highly utilised at 90 per cent over the seven months ended December 2022. Acuité believes that going forward the group will maintain adequate 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, strong business risk profile healthy financial risk profile and working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustenance 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 and liquidity position or delay in completion of its projects 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.	1396.82	912.43
PAT	Rs. Cr.	24.64	27.59
PAT Margin	(%)	1.76	3.02
Total Debt/Tangible Net Worth	Times	1.00	0.89
PBDIT/Interest	Times	2.75	2.77

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <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, 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
04 Feb 2022	Working Capital Term Loan	Long Term	17.60	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	61.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	26.73	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	2.68	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	5.27	ACUITE A- Stable (Assigned)
	Working Capital Term Loan	Long Term	28.97	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Assigned)
	Proposed Cash Credit	Long Term	10.12	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	8.63	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	34.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	61.00	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	49.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	25.11	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	14.99	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.34	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.14	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.46	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.96	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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