

Press Release

Maa Mangla Ispat Private Limited

August 02, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	135.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	135.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as ACUITE Triple B) to Rs. 135.00 Cr bank facilities of Maa Mangla Ispat Private Limited (MMIPL). The outlook is 'Stable'. The rating on BRS group takes into account the sound business position of the group as reflected from its growing revenue trend coupled with management's long track record in the sector, healthy financial profile characterized by comfortable gearing and strong debt protection metrics. The rating also draws comfort from the adequate liquidity position of the group. These strengths are however, partly offset by the cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

About Company

Incorporated in 2004, Maa Mangla Ispat Private Limited (MMIPL) is a subsidiary of B. R. Sponge & Power Private Limited and currently promoted by Mr. Harshvardhan Garg, Mr. Shashank Garg and Mr. Rohit Agarwal. The company has an installed capacity of 60,000 metric tonne per annum (MTPA) for manufacturing sponge iron, with facility located in Raigarh.

About the Group

Incorporated in 2003, B. R. Sponge & Power Limited (BRSPL), is engaged in manufacturing of sponge iron and promoted by Mr. Harshvardhan Garg, Mr. Shashank Garg and Mr. Rohit Agarwal. The manufacturing unit of the company is located at Rajamunda, Dist-Sundargarh, Rourkela, Odisha with an installed capacity of 60000 metric tons per annum (MTPA). It acquired the sick unit of MMIPL in 2016.

In 2018, B. R. Sponge & Power Limited (BRSPL) also acquired another sick unit-Maa Shakambari Steel Limited (MSSL), which is also engaged in the manufacturing of sponge iron and MS ingots. Its manufacturing facility is located at the village of Sambalpur in the Raigarh district of Chhattisgarh. The installed capacities of sponge iron and MS ingots are 60,000 MTPA and 30,000 MTPA respectively.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The team has consolidated the business and financial risk profiles of Maa Mangla Ispat Private Limited (MMIPL), B. R. Sponge & Power Limited (BRSPL), and Maa Shakambari Steel Limited (MSSL) together referred to as the 'BRS Group' (BRSG). The consolidation is in view of common management, strong operational linkages between the entities, similar line of business and corporate guarantee extended by B. R. Sponge & Power Limited (BRSPL) to Maa Mangla Ispat Private Limited (MMIPL) and Maa Shakambari Steel Limited (MSSL).

Key Rating Drivers

Strengths

Long track record of operations and strategic location of the plant

The group has a long operational track record in the iron & steel industry for two decades. In addition to this, the second generation promoters Mr. Harshvardhan Garg and Mr. Shashank Garg are now involved with the day to day operations of the company. Acuité believes that the long operational track record of BRS group and promoters' extensive understanding and expertise will support the group's growth plans going forward. BRSPL's plant is located in Rourkela of Odisha where the raw materials are available in abundance. Further, the coal and iron-ore rich states of Jharkhand and Orissa are also located nearby. The proximity to the raw material sources reduces the transportation cost to the company. Besides, the region has large number of steel manufacturers as well as end users. Acuité believes that the locational advantage of the group in proximity to various coal and iron ore mines enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent.

Healthy financial risk profile

The group's healthy financial risk profile is marked by improving net worth, low gearing and strong debt protection metrics. The adjusted tangible net worth of the group stood at Rs.146.42 Crs as on March 31, 2022 (Prov) on account of ploughing back of profits. Gearing of the company stood comfortable at 0.61 as on March 31, 2022 (Prov) as compared to 0.23 as on March 31, 2021 due to lower reliance on external debt. However, in FY22, there is increase in debt as the group had undertaken planned capex at MSSL during H2FY22 to set up a captive power plant of 4MW. The total cost of the project at MSSL is Rs.56 Cr of which Rs.37 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 Rs 37 crore of term loan from HDFC bank. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.83 times as on March 31, 2022 (Prov) as against 0.56 times as on March 31, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 21.57 times in FY 2022 (Prov) as against 24.09 times in FY 2021; and Debt Service Coverage Ratio (DSCR) at 9.44 times in FY 2022 (Prov) as against 10.41 times in FY 2021. The surge in earnings in FY2022 supported by higher realizations, minimal debt and high accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.74 times as on March 31, 2022 (Prov).

MMIPL is planning to undertake a capex to set up a 30,000 MTPA capacity billet plant, 30,000 MTPA capacity rolling mill, 9MW captive power plant and a coal deshalting plant. The total cost of the project at MMIPL is Rs.160 Cr of which Rs.105 Cr would be funded through term loan and balance from promoters' sources. The financial closure is yet to be achieved.

Acuité believes that going forward, despite having debt funded capex plans, the financial risk profile of the company will remain healthy backed by steady accruals.

Significant improvement in operating income and profitability margins

Supported by a strong rebound in steel demand post unlocking of the economy, BRS group

witnessed an improvement in its scale of operations marked by its revenues of Rs. 468.58 Crs in FY2021 as against Rs. 373.93 Crs in FY2020. The healthy financial performance continued in FY2022 (prov) with the group achieving revenue of Rs. 507.08 Crs. The group also operated at a healthy capacity of around ~81.52 per cent in FY22 driven by increase in demand of steel products, even though the production was at halt for around 55 days as the management sought for replacement of conventional lining with mullite based lining in all the three plants.

The operating margin rose to 16.82 per cent in FY2022 (prov) from 14.22 per cent in FY2021. The PAT margin of the group also increased to 12.13 per cent in FY2022 (prov) from 9.88 per cent in FY2021. The increase in profitability margins translated into healthy Return on Capital Employed (ROCE) of the group, which stood at 40.71 per cent as on March 31, 2022 (prov). The growth in profitability margins was primarily on account of high demand, better pricing power and variable cost reduction through operational efficiencies in production processes. Notwithstanding the significant increase in input prices (mainly iron ore and imported thermal coal) in the current fiscal, Acuité does not expect any significant deterioration in group's operating profits as steel prices remain remunerative.

Acuité expects the group's profits to remain at attractive levels in the next 12 months as sponge iron prices continue to remain elevated, supported by the accelerated recovery in steel demand in key global steel consuming hubs outside China.

Weaknesses

Significant project implementation risk and funding risk

MMIPL is planning to undertake a capex to set up a 30,000 MTPA capacity billet plant, 30,000 MTPA capacity rolling mill, 9MW captive power plant and a coal deshalting plant. The total cost of the project at MMIPL is Rs.160 Cr of which Rs.105 Cr would be funded through term loan and balance from promoters' sources. Since the project's success is subject to approval of facilities from bank, the said project is exposed to significant funding risk. Acuité believes that the timely completion of the project at the envisaged cost would be a key monitorable.

Exposure to inherent cyclicity and competitive & capital intensive nature of steel sector

The company's performance remains vulnerable to cyclicity 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
- Any elongation of working capital cycle
- Time over run

Material Covenants

None

Liquidity Position: Strong

The group's liquidity is strong marked by high net cash accruals stood at Rs.66.27 Cr as on March 31, 2022 (provisional) as against long term debt repayment of only Rs. 3.29 Cr over the same period. The fund based limit remains moderately utilised at 70 per cent over the seven

months ended May, 2022. The current ratio stood comfortable at 1.59 times as on March 31, 2022(provisional). The cash and bank balances of the company stood at Rs.2.63 Cr as on March 31, 2022 (provisional) as compared to Rs.5.32 Cr as on March 31, 2021. Further, the working capital management of the company is efficient as reflected by Gross Current Assets (GCA) of 93 days as on March 31, 2022 (Prov) as against 112 days as on March 31, 2021, supported by low debtor period of 10 days and moderate inventory holding at 50 days as on 31st March 2022 (Prov). Acuité believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals backed by improvement in earnings led by high demand.

Outlook:

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 efficient 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 company'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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	507.08	468.58
PAT	Rs. Cr.	61.52	46.29
PAT Margin	(%)	12.13	9.88
Total Debt/Tangible Net Worth	Times	0.61	0.23
PBDIT/Interest	Times	21.57	24.09

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- 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>
- 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	Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	106.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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