

Press Release

Yazdani Steel And Power Limited

September 22, 2022



Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---------------------------------|----------------------|
| Bank Loan Ratings | 7.00 | - | ACUITE A3 Assigned |
| Bank Loan Ratings | 93.00 | ACUITE BBB- Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 100.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 100.00 Cr bank facilities of Yazdani Steel and Power Limited (YSPL). The outlook is '**Stable**'.

The rating on YSPL takes into account its sound business position as reflected from its integrated nature of operations in the steel sector and sharp increase in the operating income. Further, it is also supported by the management's long track record in the sector and above average financial position characterized by low debt levels. These strengths are, however, offset by the working capital intensity of the company and the cyclical nature of the steel industry along with the volatility in commodity prices.

About the Company

Yazdani Steel & Power Limited (YSPL) was originally incorporated as Dinabandhu Steel & Power Limited in 2003. The company was taken over by Yazdani Group in 2011, subsequent to which the company was renamed as YSPL. The company had set up an integrated steel plant along with captive power generation facilities in Odisha with a capacity of 60,000 MTPA of Sponge Iron, 72,000 MTPA of Billets, 50,000 MTPA of TMT and 10 MW of captive power plant. Currently, the TMT capacity has been leased out. Additionally, recently YSPL has been granted a mining Lease for Kolmong Iron & Manganese Block and a mining lease of Bankhui coal block. The extraction of Manganese ore started from January, 2022 and the extraction of Iron ore started from August 2022. The extraction of coal is expected from the next financial year.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of YSPL while arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced management and group support**

The key promoter of the company, Mr. Mohammed Yusha has an experience of more than two decades in the iron and steel industry. Acuité believes that YSPL will continue to benefit from long experience of the management in establishing relations with their key suppliers and customers. Further, the group company Serajuddin & Co which is a mining company, also provides financial flexibility to YSPL.

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

The sound business risk profile of the company is supported by the integrated nature of operations of the company; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. Moreover, the newly added mines will support YSPL's operations in further backward integration, going forward. Also, the revenue of the company has improved to Rs.185.57 Cr in FY2022 (provisional) as compared to revenues of Rs.102.65 Cr in FY2021, thereby registering a growth of 80.79 per cent. Acuité believes that the sustainability in the revenue growth would be a key monitorable going forward.

In addition to this, the company has a locational advantage as the plants are located in the industrial area of Odisha, 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.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by modest albeit improving network, comfortable gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.102.65 Cr as on March 31, 2022 (provisional) from Rs.96.78 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood comfortable at 0.54 times as on March 31, 2022 (provisional) as against 0.70 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.46 times as on March 31, 2022 (provisional) as against 1.56 times as on March 31, 2021. The moderate debt protection metrics of the company is marked by Debt Service Coverage Ratio at 0.91 times as on March 31, 2022 (provisional); however, Interest Coverage Ratio is comfortable at 4.23 times as on March 31, 2022 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.21 times as on March 31, 2022 (provisional). Acuité believes that going forward the financial risk profile of the company will further improve to a healthy level over the medium term, in absence of any major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of business of the company is marked by high Gross Current Assets (GCA) of 260 days in 31st March 2022 (provisional) as compared to 465 days in 31st March 2021. The high level of GCA days is on account of high inventory levels and balances with Government Authorities during the same period. The inventory holding stood high at 136 days in 31st March 2022 (provisional) as compared to 248 days as on 31st March 2021. However, the debtor period stood comfortable at 19 days in 31st March 2022 (provisional) as compared to 34 days in 31st March 2021. Acuité believes that the working capital operations of the company will remain at same level as evident from balances with Government Authorities and high inventory levels over the medium term.

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

The downstream steel industry remains heavily 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. Additionally, prices of raw materials and products are highly volatile in nature.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Sustenance of revenue growth
- Improvement in profitability margin
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by unencumbered deposits of Rs. 8.89 Cr as on March 31, 2022 (provisional). Further, the current ratio stood comfortable at 1.43 times as on March 31, 2022 (provisional). The fund based limit remains utilised at 65 per cent over twelve months ended June, 2022. The cash and bank balances of the company stood at Rs.0.92 Cr as on March 31, 2022 (provisional) as compared to Rs.4.22 Cr as on March 31, 2021. However, the net cash accruals of Rs.11.48 Cr as on March 31, 2022 (provisional) as against long term debt repayment of Rs.13.02 Cr over the same period. The management has repaid the shortfall from their own fund. The working capital intensive nature of business of the company is marked by high Gross Current Assets (GCA) of 260 days in 31st March 2022 (provisional) as compared to 465 days in 31st March 2021. Acuité believes that going forward the company will improve the liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of the experienced management, sound business position and above average 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 company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 185.57 | 102.65 |
| PAT | Rs. Cr. | 5.87 | 0.44 |
| PAT Margin | (%) | 3.16 | 0.43 |
| Total Debt/Tangible Net Worth | Times | 0.54 | 0.70 |
| PBDIT/Interest | Times | 4.23 | 2.09 |

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

India Ratings, vide its press release dated July 28, 2022 had denoted the rating of Yazdani Steel & Power Limited as 'IND D; ISSUER NOT COOPERATING'.

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

<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 |
|---------------------|----------------|----------------------------------|------------------|----------------|----------------|-------------------|---------------------------------|
| UCO Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 0.68 | ACUITE A3 Assigned |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 16.26 | ACUITE BBB- Stable Assigned |
| UCO Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.74 | ACUITE BBB- Stable Assigned |
| State Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 7.12 | ACUITE BBB- Stable Assigned |
| UCO Bank | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 1.25 | ACUITE BBB- Stable Assigned |
| State Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 6.32 | ACUITE A3 Assigned |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 58.38 | ACUITE BBB- Stable Assigned |
| UCO Bank | Not Applicable | Term Loan | Not available | Not available | Not available | 1.08 | ACUITE BBB- Stable Assigned |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 5.27 | ACUITE BBB- Stable Assigned |
| State Bank of India | Not Applicable | Working Capital Term Loan | Not available | Not available | Not available | 1.90 | ACUITE BBB- Stable Assigned |

Contacts

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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