

MSP Steel & Power Limited

August 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	488.74 (Reduced from 516.16)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	117.00	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	605.74 (Rs. Six Hundred Five Crore and Seventy-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the ratings assigned to the Bank Facilities of MSP Steel & Power Limited (MSPL) on account of improvement in the financial performance of MSPL during FY21 (refers to the period from April 01 to March 31) on the back of strong revival in demand and steel prices leading to substantial cashflow generation and improved debt coverage parameters. The revision further factors in CARE's expectation of a sustenance of up-cycle in steel demand and prices in the medium term. The ratings continue to derive strength from experience of the promoters in the steel industry and semi-integrated nature of operations. The above rating strengths are, however, tempered by company's presence in highly cyclical steel industry, susceptible to volatility in the prices of raw materials and finished goods and leveraged capital structure.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustainable growth in scale of operations with improvement in operating profit margin beyond 10% on a sustained basis.
- Effective management of working capital limits with utilization less than 70% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any major debt laden capex undertaken by the company leading to deterioration in capital structure (overall gearing ratio beyond 3x) on sustained basis.
- Stressed liquidity marked by further elongation in the working capital cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record and experience of the promoters

MSP Steel & Power Limited (MSPL) incorporated in November, 1968, was promoted by Mr. Puranmal Agarwal (Ex-Chairman) and his brother Mr. S. K. Agarwal (current chairman), both having over four decades of experience in steel business. Under their leadership, the company has steadily grown into an integrated steel player in and around the state of Chhattisgarh.

Semi integrated nature of operations

MSPL is a semi-integrated player having manufacturing facilities of both intermediate products like sponge iron, billets and value added end products like TMT bars & structural. MSPL needs uninterrupted supply of power which is augmented by its 76MW Captive Power Plant (24MW from waste heat recovery plant and 52MW from thermal power plant). MSPL also has its own railway siding of ~2.4 km at Jamgaon, Raigarh, outside its plant ensuring allocation of railway rakes from loading points on priority basis.

Moderate debt coverage indicators

The overall gearing ratio of the company improved slightly to 2.28x as on March 30, 2021 from 2.53x as on Mar'20 (including LC acceptances and Optionally convertible debentures) due to gradual repayment of term debt and lower working capital borrowings. The OCDs are part of the unsustainable debt portion as per the restructuring agreement in 2018 and have quarterly repayments starting from December 2024. Interest coverage ratio also improved from 0.85 times in FY20 to 1.81 times in FY21 on account of increase in PBILDT level.

Improvement in the financial performance of the company during FY21

The Total Operating Income (TOI) of MSPL increased by ~12.31% y-o-y during FY21 to Rs.1,724.04 crore primarily on account of improved sales realization since H1FY21 across its entire product segment due to elevated domestic steel prices on the back of favourable international price trends and better end user demand. Accordingly, PBILDT margin improved to 8.32% (Rs.143.38 crore) in FY21 vis-à-vis 4.75% (Rs.72.93 crore) in FY20 inspite of increase in the raw material cost. The company benefited out of carrying low cost inventory (mainly iron ore) from previous fiscal (FY20). The company reported profit of Rs.5.06cr in FY21 as against loss of Rs.75.56cr in FY20. GCA (adjusted with interest liability charged on OCDs) also increased significantly to Rs.89.34 crore in FY21 (Rs.8.24 crore in FY20) vis-à-vis debt repayment obligation of Rs.34.64 crore in FY21.

Key Rating Weaknesses**Exposure to volatility in price of inputs & finished goods**

Raw material consumption is the single largest cost component for MSPL (constituting about 76% of total cost of sales during FY21). The company does not have integration for its basic raw materials like iron ore & coal and has to procure the same from open market. The company procures iron ore from mines in Odisha and Jharkhand and coal through e-auctions and from traders. Though the prices of finished goods move in tandem with raw material prices, there is a time lag. Since the raw material is the major cost driver and the prices of the same are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices.

Cyclicality in the steel industry with intense competition from the unorganized sectors

The Indian secondary steel industry is characterized by high degree of fragmentation due to the presence of large numbers of unorganized players and also exhibits cyclicality. MSPL markets its produce mainly in eastern India, which is a hub of steel plants, on account of proximity to the mineral rich states of Odisha and Chhattisgarh. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers. Further, the infrastructure and housing industry is the major end user of steel products. Going forward, the profitability of the company remains susceptible to the performance of the said user industries.

Industry Outlook

The up-cycle in domestic steel prices is supported by the bullish trend in the global steel prices and revival in domestic demand. The rally in global steel prices were initially driven single-handedly by China until other large economies like USA and Europe came roaring back to the market armed with stimulus checks which resulted into demand outpacing supply. An up-cycle in steel prices is expected to continue in FY22. Stimulus package unveiled by various countries will keep demand for steel high. Absence of China from the world export market and higher import of steel from China is one of the major factor keeping steel prices elevated. Continued higher demand from China on the back of stimulus package and the country's desire to bring down production levels in 2021 to reduce Co2 levels will be an important factor that will strengthen steel prices. Cost push from iron ore prices will remain. Demand-supply imbalance in the global market will also continue to present export opportunities to domestic players.

Impact of Covid 19 on the company

The operations at the plant in Raigarh had been temporarily suspended for 20 days in Q1FY22. The company however had successfully carried out the maintenance of the plant in the interim and subsequently resumed the operations after taking approvals from the concerned authorities following the Government's circular and following the requisite Standard Operating Procedure (SOPs). The company is currently working with 70% labour.

Liquidity Position: Adequate

The liquidity position of MSPL is adequate with moderate utilization of the fund based limits with maximum utilization averaging out to ~84% in the last 12 months ended Apr'21. MSPL also holds earmarked fixed deposits with the bankers against availed bank facilities (Rs.15.58 crore as on March 2021). This apart, MSPL has cash and bank balance of Rs.11 crore as on March 31, 2021 and Rs.20 crore as on June 27, 2021.

The working capital cycle of the company improved to 81 days in FY21 from 91 days in FY20 mainly due to better inventory management and improved collection efficiency from the customers.

The company had availed moratorium under RBI's COVID-19 Regulatory Package for March-2020 quarter and June-2020 quarter however interest has been regularly serviced by MSPL.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning outlook and credit watch](#)
[CARE policy on default recognition](#)
[Liquidity Analysis of Non-Financial sector](#)
[Rating Methodology- Manufacturing Companies](#)
[Rating Methodology- Steel Sector](#)
[Financial Ratio- Non - Financial Sector](#)
[Criteria for Short term ratings](#)
[Complexity level of rated instruments](#)

About the Company

MSP Steel & Power Ltd. (MSPL) is the flagship company of the MSP group which is over a decade old business house belonging to Agrawal family of Kolkata. MSPL is an integrated steel player, engaged in the manufacturing of sponge iron, MS ingot and rolled products (TMT and structural products). The company has Sponge Iron (DRI) unit, induction furnace for MS billets, rolling mill for TMT Bars and structural mill for structural products at Raigarh, Chhattisgarh. Apart from this, for having backward integration, the company has iron ore beneficiation plant, pellet plant, coal washery, captive power plant and railway siding of 2.4 km. Besides, the company is also involved in manufacturing fly ash bricks (48,600 TPA).

The company had undergone restructuring of debt under Sustainable Structuring of Stress Assets (S4A) scheme of RBI which was implemented in January 2018 with cut-off date being September 30, 2017.

MSPL has a Wholly owned subsidiary – MSP Cement Ltd, a 63.69% subsidiary Prateek Mines & Minerals Private Limited, both having negligible operations.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (AB)
Total operating income	1535.09	1724.04
PBILDT	72.93	143.38
PAT	-75.56	5.06
Overall gearing (times)	2.53	2.28
Interest coverage (times)	0.85	1.81

A: Audited, AB-Abridged

Status of non-cooperation with previous CRA: Brickworks continue to place the ratings of MSPL under issuer Not Cooperating category vide Press Release dated Oct. 01, 2020.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Sep- 2025	218.79	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	260.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	7.00	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	110.00	CARE A3
Fund-based - LT-Working Capital Demand loan	-	-	-	9.95	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Name of the	Current Ratings	Rating history
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Sr. No.	Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT*	218.79	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Jan-21) 2)CARE BB+; Negative (18-Sep-20)	1)CARE BB+; Negative (25-Nov-19) 2)CARE BB+; Stable (09-Oct-19)	1)CARE BBB-; Stable (22-Feb-19)
2.	Fund-based - LT-Cash Credit	LT*	260.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Jan-21) 2)CARE BB+; Negative (18-Sep-20)	1)CARE BB+; Negative (25-Nov-19) 2)CARE BB+; Stable (09-Oct-19)	1)CARE BBB-; Stable (22-Feb-19)
3.	Non-fund-based - ST-Bank Guarantees	ST*	7.00	CARE A3	-	1)CARE A4+ (06-Jan-21) 2)CARE A4+ (18-Sep-20)	1)CARE A4+ (25-Nov-19) 2)CARE A4+ (09-Oct-19)	1)CARE A3 (22-Feb-19)
4.	Non-fund-based - ST-Letter of credit	ST*	110.00	CARE A3	-	1)CARE A4+ (06-Jan-21) 2)CARE A4+ (18-Sep-20)	1)CARE A4+ (25-Nov-19) 2)CARE A4+ (09-Oct-19)	1)CARE A3 (22-Feb-19)
5.	Fund-based - LT-Proposed fund based limits	LT*	-	-	-	1)Withdrawn (18-Sep-20)	1)CARE BB+; Negative (25-Nov-19) 2)CARE BB+; Stable (09-Oct-19)	1)CARE BBB-; Stable (22-Feb-19)
6.	Fund-based - LT-Working Capital Demand loan	LT*	9.95	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Jan-21) 2)CARE BB+; Negative (18-Sep-20)	-	-

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure-4: Complexity level of various instrument rated for this category

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Richa Bagaria

Contact no. +91 (0)33-40181653

Email id: richa.jain@careratings.com

Relationship Contact

Name: Lalit Sikaria

Contact no. :+91 (0)33-40181607

Email ID: lalit.sikaria@careratings.com

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