NIF Ispat Limited

January 04, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	18.73	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	39.75	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus ; Outlook: Stable/ A Four Plus ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	1.52	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**60.00 (₹ Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from NIF Ispat Limited (NIF) to monitor the rating(s) vide e-mail communications dated October 13, 2022, and December 07, 2022, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, NIF has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on NIF's bank facilities will now be denoted as **CARE BB+/CARE A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating assigned to the bank facilities of the NIF Ispat Limited (NIF) constrained by small scale of operations, working capital intensive nature of business, leveraged capital structure and debt coverage indicators, risks arising on account of volatility in raw material prices, and exposure to foreign risk fluctuations. However, the rating derives strength from experienced promoters with satisfactory operational track record, satisfactory profitability margins and capacity utilization, and repetitive nature orders from existing customer.

Detailed description of the key rating drivers

At the time of last rating on November 29, 2021, the following were the rating strengths and weaknesses (updated for the information received from Registrar of Companies)

Detailed description of the key rating drivers

<u>Key rating weaknesses</u>

Small scale of operations

Although operating income of the company has witnessed gradual growth at a CAGR of about 15% over the last five years, the scale of operations continues to remain small at Rs. 135.58 crore in FY22. The small size acts as a hindrance to achieve economies of scale for the company. Further, the casting industry is highly competitive and fragmented in nature which in turn limits the bargaining power of NIF with customers.

Risks arising on account of volatility in raw material prices

Raw material comprised majority (around 70%) of the total cost of sales for NIF during the last three years (FY19-FY21). Pig Iron, MS Scrap and coal comprise majority of raw material requirement of NIF. It sources MS Scrap and Pig Iron from various manufacturers and traders located near its manufacturing unit against advance payment to get rate benefit. Since such raw material comprises majority of its costs, any variation in the same without corresponding change in finished goods sales prices would lead to pressure on its margin in view of absence of price escalation clause in most of the contracts. To counter the

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

same, NIF as a strategy books raw materials as soon as they receive the order. Further, due to the short-term nature of contracts, the increase in material cost can be passed on with a lag in the newer orders.

Exposure to foreign risk fluctuations
NIF has an exposure in foreign currency in the form of export of finished goods. As per management, about 50% of foreign currency risk is covered by using foreign exchange forward contracts and the remaining part remain unhedged.

Working capital intensive nature of business
NIF's operations are working capital intensive in nature due to high stock holding period and average collection period. Though the company books raw material as soon as it receives the order (mainly pig iron), the inventory holding considering RM, WIP and finished inventory worked out to be 81 days in FY22 (97 days in FY21). Besides, the receivables period increased from 92 days in FY20 to 107 days in FY21 due to increase in shipping period and stood at 98 days in FY22. As a result, operating cycle has increased to 187 days in FY21 as against 151 days in FY20 and stood at 161 days in FY22. To fund its working capital requirements NIF relied upon its bank borrowings and unsecured loan. The company availed packing credit of Rs.34 crore to fund its working capital requirement. The average utilization of packing credit remains high at about 94% through the past 12 month ended September 2021.

Leveraged capital structure and debt coverage indicators
The overall gearing of the company stood moderately high at 1.71x as on March 31, 2022 as against 1.54x as on March 31, 2021. Also, TDGCA deteriorated to 8.15x as on March 31, 2022 as against 7.22x as on March 31, 2022 on account of higher debt levels.

Key rating strengths
Experienced promoters with satisfactory track record of operations
NIF is managed by Mr. Sugam Madhogaria and Mr. Girish Kumar Madhogaria, with adequate support from other director. The company started its operation in 1955 and has a long operational track record of more than six decades in the cast iron and ductile iron manufacturing business. NIF caters to different industrial requirements including sanitary, locomotives, etc. However, around majority of the revenue is generated from Sanitary industry. The company has a long-standing presence in cast-iron and ductile iron casting segment. The company caters majorly to export market.

Satisfactory profitability margins and capacity utilization
The company's capacity utilization has been increasing over the past four years and stood at around 80% in FY21. The company derived 85% of its revenue from exports (such as USA, UK, Canada, Australia, Spain, Italy, Croatia, Singapore, Cyprus, Germany and all Middle East Countries, etc.) in FY21 as against 80% in FY20. In domestic market, NIF majorly sells to domestic traders. The operating profitability has remained satisfactory over the period FY18-FY21. PBILDT margin improved to 13.26% in FY21 as compared with 12.54% in FY20 due to improvement in operating efficiency and better capacity utilization of ductile iron. PBILDT margin stood at 10.37% in FY22. Further the PAT margin has also remained satisfactory due to improved operating profits and relatively stable finance costs. With comfortable PBILDT level vis-à-vis capital charge, the interest coverage has also remained healthy over the last four years.

Repetitive nature orders from existing customers albeit export orders not backed by LC
As on September 30, 2021, NIF had an order book of Rs.40.78 crore. The orders in hand are proposed to be executed within 6 months. The company receives order directly from its domestic and overseas clients on repeat basis. The top 5 customers constitute 57% of the gross sales in FY21. Although the company has been dealing with these customers for a long time, it is exposed to geographic (majority of exports going to USA) & customer concentration risk. Besides, as the company's export sales are not backed by LC (only have ECGC insurance), the company is exposed to non payment risk from customers.

Analytical approach
Standalone

Applicable criteria
Policy in respect of Non-cooperation by issuer
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

Short Term Instruments
Manufacturing Companies

About the company
NIF was incorporated in 1955 as Nandikeshwari Iron Foundry (P) Ltd by Kolkata based Madhogaria family which subsequently got converted to a limited company in 2000. NIF is engaged in manufacturing of various types of cast iron and ductile Iron and other engineering products which find application majorly in sewerage system.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	92.79	135.58	NA
PBILDT	12.07	14.06	NA
PAT	3.95	4.84	NA
Overall gearing (times)	1.54	1.71	NA
Interest coverage (times)	4.32	3.32	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	October 2026	18.73	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST-EPC/PSC		-	-	-	39.75	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - ST-Forward Contract		-	-	-	0.52	CARE A4+; ISSUER NOT COOPERATING*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	18.73	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (29-Nov-21)	-	-
2	Fund-based - LT/ ST-EPC/PSC	LT/ST*	39.75	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable / CARE A4+ (29-Nov-21)	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A4+ (29-Nov-21)	-	-
4	Non-fund-based - ST-Forward Contract	ST	0.52	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A4+ (29-Nov-21)	-	-

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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