

## Dina Iron & Steel Limited (Revised)

August 04, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	31.19 (Reduced from 34.58)	CARE BB+; Stable (Double B Plus; Outlook: Stable )	Reaffirmed
<b>Total Bank Facilities</b>	<b>31.19</b> <b>(₹ Thirty-One Crore and Nineteen Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dina Iron & Steel Limited (DISL) continues to remain constrained by its small scale of operation, profitability being susceptible to volatility in the prices of raw materials, moderate financial risk profile and cyclical nature of the steel industry. The rating, however, derives strength from the long-standing experience of the promoters, royalty-based agreement with its principal Kamdhenu Metallurgical Industries Ltd (KMIL) and partially integrated operations. The rating also factored the moderate financial performance in FY22 (refers to period from April 1 to March 31).

### Rating Sensitivities

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

- Growth in scale of operations as marked by total operating income of above Rs.270 cr on sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 4.00% and 1.50% respectively on sustained basis.

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

- Deterioration in the capital structure as marked by overall gearing ratio above 2.50x on a sustained basis.
- Decline in coverage indicators as marked by interest coverage ratio below 1.50x and total debt to GCA of above 20.00x on a sustained basis.

### Detailed Rationale & Key Rating Drivers

#### Key Rating Weaknesses

**Small scale of operation:** DISL is a relatively small player, with an installed capacity of 67,200 MTPA each for Mild Steels Billets and TMT Bars/Wires in comparison to other players operating in this industry. The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress; however, the company is in advance to enhance its rolling mill capacity to 105,000 MTPA which is expected to increase the scale of operations over the medium term.

**Profitability susceptible to volatility in raw material prices:** The basic raw material for DISL is sponge iron, the prices of which are volatile in nature. The raw-material consumption accounted for roughly about 78% of total cost of sales in FY22. Accordingly, the profitability of DISL is susceptible to volatility in the prices of its raw materials as it is one of the major cost drivers of the company. Apart from raw material, power is another major cost, and the company procures power from Bihar State Electricity Board.

**Moderate financial performance in FY22:** DISL witnessed moderate increase of ~14.88% to Rs. 193 crores in FY22 as against Rs. 168 crore in FY21 largely on account of higher realization which increase by about 30% for TMT Bars while 36% for MS Wire Rod Sales over last year. However, Profitability margins in FY22 were largely in line with that of FY21. The company reported PBILDT margin of 2.23% in FY22 as against 2.57% in FY21. Marginal dip was largely on account of volatility in raw material prices. Further for first quarter of FY2023 the company has achieved about Rs ~65.7 crores of revenue.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Moderately high overall gearing and debt coverage indicators:** The overall gearing of the company stood moderately high at 1.41 x as on March 31, 2022 as against 2.02 x as on March 31, 2021. The total debt remains lower at Rs. 30.44 crore as on March 31, 2022 (Rs. 41 crore as on March 31, 2021) largely on account of lower year end utilization of bank lines along with repayment of term debt. TDGCA improved to 16.40x as on March 31, 2022 as against 25.86x as on March 31, 2021 on account relatively lower Debt levels. Further the total debt of DISL also comprises of unsecured loans from promoters and its affiliate entities at Rs 7.38 crores in FY22 (Rs 9 crores in FY21).

**Cyclical associated with the steel industry.** The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion impact the responsiveness of supply side to demand movements. Furthermore, the producers of finished steel & related products like DISL are essentially price-takers in the market (i.e. their fortune depends upon the construction industry), which directly expose their cash flows and profitability to the volatility of the end user industry.

### Key Rating Strengths

**Experienced promoters with satisfactory track record of operations:** DISL is managed by Mr. Sanjay Kumar Bhartiya (Promoter) with adequate support from Mr. Prashant Kumar Bhartiya, (Director and brother of Mr. Sanjay Kumar Bhartiya). The company started its operation in 1999 and accordingly has a track record of more than two decades.

**Strong association with the principal and sole manufacturer of Kay2 Bars & Wires:** DISL has been associated with Kamdhenu group since 2014. The company has entered into a royalty based agreement and is the sole manufacturer of Kay2 thermo-mechanically treated (TMT) bars/ rods and wires for the state of Bihar and has since then been continuously focusing on capturing the market.

**Partially integrated operation and moderate Capacity Utilization (CU):** DISL has a partial integrated facility for manufacturing of TMT bars and wire rods by captive manufacturing of billets rather than procuring it from market. The capacity utilization (CU) though declined, has remained moderate at ~53.97% in FY22 as compared to ~64.88% in FY21. The moderation in CU was mainly on account of impacted first quarter with second wave of pandemic during the period of April to June 2021, further the impact lasted with limited supply of sand during period of July to November 2021 across Bihar. The same was done to curb the illegal mining and distribution of sand across the state, however had adversely impacted the progress of construction sector as sand is one of the key raw materials. Since major application of DISL products is in construction sector the overall volume offtakes remained low during this period.

### Industry Outlook:

The steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a year-on-year (y-o-y) basis in FY22. CareEdge Research believes the medium-term steel demand will continue to be robust due to the government's infrastructure push and increased investments amid an overall rebound in the Indian economy.

Steel exports remained robust for the third straight year and increased by 25.1% during FY22 after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry, an uptrend in global steel prices and higher demand from European nations led to the increased shipments from India.

International steel prices were on an uptrend and rose significantly to upwards of USD 1,200 per tonne in March 2022 due to the geopolitical tensions around Russia. Increased international steel prices led to significantly higher export volumes, which in turn led to an increase in domestic steel prices. Given the rise in steel, prices have an adverse impact on infrastructure push and a secondary impact on inflation, the government, in May 2022, imposed a 15% export duty on a range of finished steel products - making exports less attractive. Also, the import duty on various raw materials (like coking coal, iron-ore, ferro-nickel) was reduced. This will likely improve domestic steel availability as well as soften the domestic steel prices.

### Liquidity- Adequate

The company had adequate liquidity position with GCA of Rs.1.86 crore against term debt repayment obligation of Rs.3.65 crore in FY22. It had availed covid loans in FY22 due to interest rate differential and reduced the working capital borrowings. This apart the promoters may infuse unsecured loans in case of fund requirement of the company. The average utilization of working capital bank facilities stood low at 48% during the past 12-months ended June'22. At the time of repayment falling due, apart from the GCA, the company may additionally rely upon buffer available in CC limits to repay its term debt obligation. The company does not have any further capital expenditure plans in the medium term. DISL has a repayment obligation of

Rs.2.52 crore in FY23 and apart from GCA the company is expected to rely on buffer available in working capital limit to meet the repayment obligations.

**Analytical approach:** Standalone

**Applicable criteria**

[Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Steel Companies](#)

**About the company**

Dina Iron & Steel Ltd. (DISL), promoted by Bhartiya family of Patna, was incorporated in July 1992 as JM Dina Ispat Ltd. (JMDIL) to set up a manufacturing unit for iron and steel products. In September 1993, JMDIL was rechristened as Dina Iron & Steel Limited. However, the business remained dormant for about seven years and the commercial operations commenced from 1999. The company has setup its manufacturing facility at Didarganj in Patna with present installed capacity of 67,200 MTPA of Billets and 67,200 MTPA for Mild Steel (MS) Wire Rods and TMT Bar (expansion plan for 105,000 MTPA is under process). DISL uses billets mainly for captive purpose for manufacturing of TMT bars and wires. The day-to-day affairs of the company are looked after by Mr. Sanjay Kumar Bhartiya with adequate support from his brother Mr. Prashant Kumar Bhartiya (Director), and a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23
Total operating income	168.19	193.31	NA
PBILDT	4.32	4.32	NA
PAT	0.95	1.27	NA
Overall gearing (times)	2.02	1.41	NA
Interest coverage (times)	1.83	1.86	NA

A: Audited, P: Provisional, NA: Not Applicable

**Status of non-cooperation with previous CRA:** Not applicable

**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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	April '25	4.69	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	1.50	CARE BB+; Stable

**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-Cash Credit	LT	25.00	CARE BB+; Stable	-	1)CARE BB+; Stable (06-Oct-21)	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (05-Aug-19)
2	Fund-based - LT-Term Loan	LT	4.69	CARE BB+; Stable	-	1)CARE BB+; Stable (06-Oct-21)	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (05-Aug-19)
3	Fund-based - LT-Cash Credit	LT	1.50	CARE BB+; Stable	-	1)CARE BB+; Stable (06-Oct-21)	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (05-Aug-19)

**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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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:

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