

Dina Iron & Steel Limited

October 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	34.58 (Reduced from 36.98)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	34.58 (Rs. Thirty-Four Crore and Fifty-Eight Lakhs Only)		

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 Mettalic Industries Ltd (KMIL) and partially integrated operations. The rating also factored the moderate financial performance in FY21 (refers to period from April 1 to March 31) and Q1FY22.

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 82% of total cost of sales in FY21. 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 FY21 and Q1FY22: DISL witnessed a y-o-y decline of ~7% in Total operating income to Rs. 168.19 crore in FY21 as against Rs. 179.85 crore in FY20 on account of Covid-19 induced lockdown in Q1FY21 which led to decline sales volume of MS Wire Rods and MS Billets. However, Profitability margins in FY21 were in line with FY20. The company reported PBILDT margin of 2.57% as against 2.87% in FY20. In Q1FY22, the company reported PBT of Rs.0.68 crore on operating income of Rs.53.16 crore.

Moderately high overall gearing and debt coverage indicators: The overall gearing of the company stood moderately high at 2.02x as on March 31, 2021, as against 2.08x as on March 31, 2020. The company had availed the emergency Covid 19 relief fund and working capital term loan for interest rate arbitrage and simultaneously reduced the utilization of cash credit. However, TDGCA increased to 25.86x as on March 31, 2021, as against 23.79x as on March 31, 2020, on account relatively lower GCA level. The interest coverage ratio continued to remain satisfactory at ~1.83x in FY21 vis-à-vis ~1.67x in FY20.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Cyclicality 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) of rolling mill though declined, has remained moderate at ~65% in FY21 as compared to ~73% in FY20. The moderation in CU was mainly on account of aggravated by the nation-wide lockdown due to the unprecedented outbreak of Covid 19.

Industry Outlook: CARE Ratings expects the domestic steel demand to grow at a CAGR of about 7.5% during the next 2-3 years. Steel demand will be supported by economic recovery, government spending on infrastructure, revival in capex cycle and enhanced liquidity. The Union Budget for 2021- 2022 has a sharp 34.5% y-o-y increase in allocation for Capex at 5.54 lakh crore. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption.

Liquidity- Adequate

The company had adequate liquidity position with GCA of Rs.1.59 crore against term debt repayment obligation of Rs.0.68 crore in FY21. DISL has a repayment obligation of Rs.3.65 crore in FY22 and apart from GCA the company is expected to rely on buffer available in working capital limit to meet the repayment obligation. It had availed covid loans in FY21 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 30% during the past 12-months ended June'21 and about 50% in the last 3 months. 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.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating Methodology-Steel Companies](#)

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

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 (Rs. crore)	FY20(A)	FY21(A)
Total operating income	179.85	168.19
PBILDT	5.16	4.32
PAT	0.92	0.95
Overall gearing (times)	2.08	2.02
Interest coverage (times)	1.67	1.83

A: Audited,

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

Bank Lender Details: Annexure 5

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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	April '25	8.08	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	1.50	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		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-Cash Credit	LT	25.00	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (05-Aug-19)	1)CARE BB+; Stable (28-Nov-18)
2	Fund-based - LT-Term Loan	LT	8.08	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (05-Aug-19)	1)CARE BB+; Stable (28-Nov-18)
3	Fund-based - LT-Cash Credit	LT	1.50	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (05-Aug-19)	1)CARE BB+; Stable (28-Nov-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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