

## Mahamaya Steel Industries Limited

### December 06, 2021

#### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	46.01 (Reduced from 48.71)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	20.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>66.01</b> <b>(Rs. Sixty-Six Crore and</b> <b>One Lakhs Only)</b>		

\*Details of facilities in Annexure-1

#### Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) continues to draw strength from long track record of the company and experienced promoters, strategic location of the plant, improvement in financial performance of the company during H1FY22 (refers to the period from April 1 to September 30) despite moderation in FY21 on account of Covid-19 pandemic and moderate debt coverage indicators.

The ratings are however, constrained by client concentration risk, high exposures to group companies, low capacity utilization, low profitability margins, profitability susceptible to volatility in input cost and cyclical in the steel industry amidst intense competition.

#### Key Rating Sensitivities

##### Positive Factors

- The ability of the company to increase its scale of operation with improvement in its operating margin beyond 8% on a sustained basis
- Reduction in overall gearing below 1x on a sustained basis

##### Negative Factors

- Deterioration in the financial performance in the ensuing quarters coupled with moderation in the overall gearing ratio and debt coverage indicators beyond current levels (FY21)

#### Detailed description of key rating drivers

##### Key Rating Strengths

##### **Long track record of the company and experienced promoters**

MSIL incorporated in 1988, was promoted by Raipur based Mr. Ramanand Agarwal. Mr. Agarwal has more than four decades of experience in the iron and steel industry. Currently, the day-to-day affairs of the company is looked after by Mr. Rajesh Agrawal (Son of Mr. Ramanand Agrawal) along with the support from a team of experienced professionals.

##### **Strategic location of the plant**

The manufacturing facilities of MSIL enjoys logistical advantage due to their strategic location in Raipur, Chhattisgarh with availability of raw material like sponge iron, steel scrap and well connectivity to road/ rail leading to cost effectiveness.

##### **Improvement in financial performance in H1FY22, albeit deterioration in FY21 and low profitability margins**

The Total Operating Income (TOI) of the company registered a y-o-y de-growth of ~30% during FY21 at Rs. 251.36 crore from Rs. 358.38 crore in FY20. The decrease in top line was mainly due to decline by volume by about 30% on account of COVID-19 pandemic amidst increase in average sales realisation by about 8%. However, the PBILDT margin increased to 5.21% in FY21 (4.58% in FY20) despite increase in raw material cost. The company benefited out of carrying low cost inventory from previous fiscal (FY20) coupled with decline in the employee cost and other administrative expenses. Further, the PAT declined to Rs.0.55 crore in FY21 as against Rs.3.25 crore in FY20. The company earned a GCA of Rs. 5.53 crore (GCA of Rs.5.86 crore in FY20) as against debt repayment obligation of Rs.1.20 crore in FY21. Apart from this, the company redeemed preference share capital amounting Rs.2.56 crore through equity infusion of Rs.12 crore.

In H1FY22, the company's operating income improved substantially to Rs.216.24 crore and PAT to Rs.1.19 crore as against operating income of Rs.83.56 crores and net loss of Rs.2.81 crore in H1FY21, owing to improvement in demand and sales realizations. However, profitability margins continued to remain at lower levels (PBILDT margin: 3.35% & PAT margin: 0.55%).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Moderate debt coverage indicators**

Capital Structure continued to remain moderate with slight improvement in the overall gearing ratio from 1.39x as on March 31, 2020 to 1.21 times as on March 31, 2021. The improvement in overall gearing, despite an increase in debt through GECL loans of Rs.5.36 crore during the year, was on the back of equity infusion of Rs.12 crore during FY21 by the promoters. The TDGCA moderated to 18.21 times as on March 31, 2021 as against 17.27 times as on March 31, 2020 on account of decline in GCA in FY21.

The gearing ratio improved to 0.94x as on September 30, 2021 owing to lower working capital utilisation led by improved revenues and cash flows.

**Key Rating Weaknesses****Low capacity utilization**

The capacity utilization of the rolling mill and melting shop continued to remain low at 31.68% and 23.72% in FY21 as against 42.58% and 52.60% in FY20 respectively, majorly owing to Covid-19 induced lockdowns and resultant dip in demand. However, the capacity utilization of MS Angle/ channel/joint/beam improved to 33.30% whereas for bloom/billet it improved to 39.05% respectively during Q1FY22 with improvement in demand. Further the oxygen/nitrogen plant operated at 17.30% capacity in FY21 as compared to 21.88% in FY20 (21.30% in Q1FY22).

**Client concentration risk**

The company continues to have high customer concentration with top 10 customers contributing ~60% of the total revenues in FY21 (as against ~40% in FY20).

**High Exposure to group companies**

The company has significant exposure to its group companies in the form of investments, loans and advances to its group companies amounting to Rs.33.08 crore as on March 31, 2021 (accounting for nearly 38.55% of the net worth as on March 31, 2021, as against 43.91% of the net worth as on March 2020). The company procures a major portion of its sponge iron requirement from its group/ associate companies namely Devi Iron and Power Private Limited in which the company is also a 50% shareholder. After adjusting for exposure to group companies and stressed receivables of Rs.2.33 crore (ongoing litigation against 3 debtors), adjusted overall gearing works out to be 1.01x as on March 31, 2021 (1.28x as on March 31, 2020).

**Partial exposure to volatility in the prices of raw material**

Raw material (sponge iron/scrap) is the major cost driver constituting about 79% of the cost of sales. The prices of its raw materials are highly volatile in nature and any upward movement in the prices of the raw material without any corresponding movement in the finished goods prices may adversely affect the profitability of the company.

**Cyclical associated with the steel sector characterized by intense competition**

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. It is also characterized by high degree of fragmentation due to the presence of numerous unorganized players. 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.

**Outlook on the industry**

Domestic steel production and consumption remained subdued in Q2FY22 due to the second wave of Covid-19 pandemic imposed lockdowns, the onset of the monsoon season affecting construction activities and the global chip shortage (semiconductor shortage) affecting demand from the auto sector. However early signs of pick up in overall demand for steel is seen with increased vaccination coverage and lockdown restrictions gets less stringent, demand from the consumer goods segment is likely to witness growth for the festive season and government spending on infrastructure development is expected to pick up. Therefore, with pickup in government's infrastructure spending and Q4 being the strongest quarter seasonally for the steel industry, H2FY22 is expected to be better than H1FY22 for the steel industry.

**Liquidity Analysis: Adequate**

The company earned a GCA of Rs. 5.53 crore (GCA of Rs.5.86 crore in FY20) as against debt repayment obligation of Rs.1.20 crore in FY21. Apart from this, the company redeemed preference share capital amounting Rs.2.56 crore. During FY21, the company has infused equity to the tune of Rs.12 crore. Adequate liquidity is characterized by average working capital limits utilisation of 45.46% for 12 months ending October 31, 2021. The company had free cash and cash equivalents of Rs.4.03 crore and 'Nil' utilisation of its CC limits of Rs.46 crores as on October 31, 2021. MSIL has a debt repayment obligation of Rs.6.14 crore (including redemption of preference share capital and repayment of COVID-19 loan) in FY22 which is expected to be met out of cash sufficient accruals.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[Complexity level of rated instrument](#)

[Liquidity analysis for non-financial sector entities](#)

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

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology-Steel Companies](#)

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

[Criteria for Short term Instruments](#)

**About the Company**

Mahamaya Steel Industries Limited (MSIL) was incorporated in 1988, by Mr. Ramanand Agrawal as the flagship company of the Raipur-based Mahamaya Group. MSIL has production facilities for billets/blooms and structural steel products with annual production capacities of 205,000 metric tonne (MT) and 174,250 MT, respectively. This apart the company has a gas plant with an annual production capacity of 900,000 cubic metre (CuM). The company manufactures heavy and light steel structural products such as joists, angles, beams, channels etc. The products are sold under the brand name "MAHAMAYA". The day-to-day affairs of the company is looked after by Mr. Rajesh Agrawal along with the support from a team of experienced professionals.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	358.38	251.36	216.24
PBILDT	16.40	13.08	7.25
PAT	3.25	0.55	1.19
Overall gearing (times)	1.39	1.21	0.94
Interest coverage (times)	1.81	2.03	2.89

A: Audited

**Status of non-cooperation with previous CRA:** ICRA has placed the rating at ICRA B+, Stable/A4 Issuer Not Co-operating vide press release dated September 16, 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	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		-	-	-	46.00	CARE BBB-; Stable
Term Loan-Long Term		-	-	-	0.01	CARE BBB-; Stable
Non-fund-based - LT/ST-BG/LC		-	-	-	20.00	CARE BBB-; Stable / CARE A3

**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	46.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Sep-20)	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)
2	Term Loan-Long Term	LT	0.01	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Sep-20)	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	20.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (30-Sep-20)	1)CARE BBB-; Stable / CARE A3 (27-Dec-19)	1)CARE A3 (19-Dec-18)
4	Fund-based - LT-Proposed fund based limits	-	-	-	-	-	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : NA****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	Non-fund-based - LT/ ST-BG/LC	Simple
3	Term Loan-Long Term	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. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: mradul.mishra@careratings.com

### Analyst Contact

Name: Punit Singhania  
Contact no.: + 91-033- 40181600  
Email ID: punit.singhania@careratings.com

### Relationship Contact

Name: Lalit Sikaria  
Contact no.: + 91-033- 40181600  
Email ID: lalit.sikaria@careratings.com

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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