

## MSP Steel & Power Limited (Revised)

July 07, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	433.73 (Reduced from 488.74)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	117.00	CARE A3 (A Three)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>550.73</b> <b>(₹ Five Hundred Fifty Crore and Seventy-Three Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the Bank Facilities of MSP Steel & Power Limited (MSPL) continues to draw strength from the experience of the promoters in the steel industry, its semi-integrated nature of operations and moderate financial risk profile with improvement in financial performance in FY22 (refers to the period from April 01 to March 31) on the back of strong revival in demand and steel prices.

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.

CARE has withdrawn the rating assigned to the proposed WCDL facility of MSPL with immediate effect at the request of the company as it has not availed the aforementioned proposed WDL facility and there is no amount outstanding under the proposed facility as on date.

### 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 2.17x as on March 30, 2022 from 2.28x as on March 31, 2021 (including LC acceptances and Optionally convertible debentures) due to gradual repayment of term debt. The OCDs are part of the unsustainable debt portion as per the restructuring agreement in 2018 and have quarterly repayments starting after the

<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

repayment of sustainable debt, i.e., September 2025. Interest coverage ratio also improved from 1.80 times in FY21 to 2.09 times in FY22 on account of increase in PBILDT level.

### ***Improvement in the financial performance of the company during FY22***

The Total Operating Income (TOI) of MSPL increased by ~35.78% y-o-y during FY22 to Rs.2339.58 crore primarily on account of improved sales realization across its entire product segment due to elevated domestic steel prices on the back of favourable international price trends and better end user demand. However, PBILDT margin declined to 6.63% (Rs.155.23 crore) in FY22 vis-à-vis 8.32% (Rs.143.38 crore) in FY21 due to substantial increase in the price of raw material mainly pig iron. Further, the company has also made provision for bad debt amounting to Rs.15.00 crore leading to decline in the PBILDT level. GCA (adjusted with interest liability charged on OCDs) increased significantly to Rs.120.86 crore (Rs.89.34 crore in FY21) vis-à-vis debt repayment obligation of Rs.45.75 crore in FY22.

### **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 86% of total cost of sales during FY22). 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 imposition of export duty will lead to a de-growth in exports from India for FY23. The reduction in import duty on various raw materials will help reduce domestic steel prices in India and encourage domestic production.

Steel production in India will be driven by an increase in allocation of capex by 36% y-o-y at Rs. 7.5 lakh crore in Union Budget 2022-23, and, infrastructure push towards seven engines (roads, railways, airports, ports, mass transport, waterways and logistic infra) in the budget. Further, the approval of Production Linked Incentive (PLI) Scheme for specialty steel, Pradhan Mantri Awas Yojana (PMAY) scheme and, Jal Jeevan Mission will further boost the steel production in India.

Apart from these, a revival in economic activities will also support domestic steel consumption and will aid steel production in India.

### **Liquidity Position: Adequate**

The company has adequate liquidity characterized by GCA (adjusted with interest liability charged on OCDs) of Rs.120.86 crore as against repayment obligation of Rs.45.75 crore in FY22. The maximum utilization of the fund based limits averaged out to ~85% in the last 12 months ended Mar'22. MSPL also holds earmarked fixed deposits with the bankers against availed bank facilities (Rs.47.21 crore as on March 31, 2022). This apart, MSPL has cash and bank balance of Rs.48.05 crore as on March 31, 2022. The current ratio stood at 1.31x as on March 31, 2022. Further, the working capital cycle of the company also improved significantly to 46 days in FY22 from 81 days in FY21 mainly due to better inventory management.

### **Analytical approach- Standalone**

#### **Applicable criteria**

[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](#)

[Steel](#)

[Policy on Withdrawal of ratings](#)

## 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Ab)	Q1FY23
Total operating income	1,723.13	2,339.58	NA
PBILDT	142.47	155.23	NA
PAT	5.06	33.95	NA
Overall gearing (times)	2.28	2.17	NA
Interest coverage (times)	1.80	2.09	NA

A: Audited; Ab: Abridged; NA: Not Available

**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. 06, 2021.

**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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sept. 2025	173.73	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	260.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	7.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	110.00	CARE A3
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn

**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	173.73	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Aug-21)	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)
2	Fund-based - LT-Cash Credit	LT	260.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Aug-21)	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)
3	Non-fund-based - ST-Bank Guarantee	ST	7.00	CARE A3	-	1)CARE A3 (03-Aug-21)	1)CARE A4+ (06-Jan-21) 2)CARE A4+ (18-Sep-20)	1)CARE A4+ (25-Nov-19) 2)CARE A4+ (09-Oct-19)
4	Non-fund-based - ST-Letter of credit	ST	110.00	CARE A3	-	1)CARE A3 (03-Aug-21)	1)CARE A4+ (06-Jan-21) 2)CARE A4+ (18-Sep-20)	1)CARE A4+ (25-Nov-19) 2)CARE A4+ (09-Oct-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)
6	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BB+; Stable (06-Jan-21) 2)CARE BB+; Negative (18-Sep-20)	-

**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
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Letter of credit	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](mailto:care@careedge.in) for any clarifications.

### Contact us

#### Media contact

Name: Mradul Mishra  
Phone: +91-22-6754 3596  
E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

#### Analyst contact

Name: Richa Bagaria  
Phone: +91-033- 40181653  
E-mail: [richa.jain@careedge.in](mailto:richa.jain@careedge.in)

#### Relationship contact

Name: Lalit Sikaria  
Phone: + 91-033- 40181600  
E-mail: [lalit.sikaria@careedge.in](mailto:lalit.sikaria@careedge.in)

#### About us:

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