Phil Ispat Private Limited

November 08, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	61.38	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	30.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Assigned
Total Bank Facilities	**91.38 (₹ Ninety-One Crore and Thirty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Phil Ispat Private Limited (PIPL) derives comfort from the experienced promoters with long track record of operations, semi-integrated nature of operations, strategic location of the plants, satisfactory capacity utilisation, improving financial performance over the years, and comfortable capital structure and debt protection metrics. The rating, however, remains constrained by geographical concentration risk, profitability susceptible to volatility in input prices and cyclicality associated with steel industry.

Rating sensitivities

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

- Increase in scale of operations above Rs.800 crore and operating margins beyond 13% on a sustained basis
- Sustenance of capital structure below 0.20x and Total debt/GCA below 1x.
- Maintenance of operating cycle less than 30 days on sustained basis.

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

- Decline in scale of operations below Rs.500 crore and deterioration in operating margins below 7.5% on a sustained basis.
- Any major debt funded capex leading to deterioration in capital structure with overall gearing above 0.50x and Total Debt/GCA above 2x.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record of operations

The promoters of PIPL have experience of over 20 years in the steel industry leading to better understanding of the local market dynamics, and healthy relationship with customers and suppliers. Currently, the group is being managed by Mr. Vijay Anand Jhawar, Mr. Prashant Kumar Mohta, Mr. Amal Kumar Choudhary, and Mr. Praveen Somani supported by a team of experienced professionals.

Semi-integrated nature of operations along with captive power plant

The manufacturing operation of the group is semi-integrated in nature with sponge iron plants, ingots/billets and rolled products facilities derived from sponge iron & billets. There is a gradual shift in product sales mix to downstream products via increase in production and sales of billets and TMT bars. The sponge iron is captively consumed for manufacturing billets and the rest is sold. Apart from this, the group companies also sell sponge iron to one another. The group also has 10 MW of captive power source (Waste heat recovery plant) to meet majority of the power requirement for its manufacturing operations. The integration of the operations among the group companies coupled with captive power sources results in strong operational linkages, leading to a better cost structure.

Strategic Location of the Plant

In manufacturing of steel products, freight cost constitutes a significant portion as large amount of bulky raw material is required to be sourced to the manufacturing site. The manufacturing facility of the group is near the sources of the main raw material (i.e., iron-ore and coal) required for the manufacturing of its products. The plants are also well connected through road (State Highway and National Highway) and rail transport (Raipur Railway Station) which facilitates easy transportation of raw materials and finished goods.

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

Presence of Captive Power plants (CPP) as a part of backward integration
Iron & steel industry is a power intensive industry wherein stable supply of power is required favorably at minimum possible cost. Power cost minimization is possible through utilization of captive power sources leading to a relatively stable and low-cost supply source for power requirements. The group has a Waste Heat Recovery Based (WHRB) captive power plant of 10 MWs which caters to majority of the group's power requirements. This helps reduce its dependency on external power sources and reduce power costs.

Satisfactory capacity utilization in the last three financial years despite enhancement in installed capacity and Covid-19 pandemic induced disruption
Capacity utilization (CU) of the GSPPL was satisfactory in the last three financial years marked by above 80% CU for Sponge iron plant. However, CU for ingot moderated over the last three financials years due to the sale of sponge iron to the group company i.e., PIPL. Nonetheless, in Q1FY23, CU Sponge iron and ingot increased on account of improved demand scenario.
The capacity utilization (CU) of the PIPL was also satisfactory in the last three financial years despite an increase in the installed capacity marked by above 80% CU for Sponge iron plant. Also, CU of MS billets consistently remained above 60% in the last two financial years. CU of TMT bars increased in FY22 to 40% from 21% in FY21 mainly due to stabilization of plant and improved demand scenario.
In Q1FY23, CU across all the products witnessed improvement on account of account of improved demand scenario.

Improvement in financial performance in the last three financial years
The group has witnessed sharp improvement in the last three financials years marked by an increase in the scale of operations and profitability margins. Total operating income (TOI) increased mainly on the back of increase in sales volumes attributable to addition of capacity in sponge iron and addition of MS billet and TMT bars products in FY21 along with industry driven increase in average sales realizations.
Profitability margins also improved in the last three financial years partly on account of increase in gross margins attributable to increase in average sales realization and partly due to better absorption of fixed overhead attributable to increase in capacity utilization. Improvement in profitability margins along with increase in scale of operations led to an increase in profitability level marked by increase in PBILDT by 2.85x in FY22 over FY20. Accordingly, higher PBILDT level led to an increase in profit after tax (PAT).

Comfortable capital structure and debt protection matrices
Capital structure of the group continued to remain comfortable over the last three financial years marked by overall gearing of 0.21x as on March 31, 2022 (improved from 0.49x as on March 31, 2020). Also, debt protection matrices continued to remain comfortable marked by total debt to gross cash accruals (GCA) of 0.72x as on March 31, 2022 (2.81x as on March 31, 2020).

Key rating weaknesses
Geographical concentration risk and moderate customer concentration risk
The operations of the group are constrained in terms of its geographical reach as majority of its customers are located within the state of Chhattisgarh thereby restricting its market reach outside the state and risking its sustainability of cash flows in times of adverse market conditions. The Top 10 customers form about 38% of the total revenue for FY22 (44% of the total revenue for FY21) which exposes the company to moderate customer concentration risk.

Cyclicality associated with the steel industry
Steel is a cyclical industry, strongly correlated to economic cycles since its key users viz., construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Besides local factors, the global demand supply situation especially China is major factor impacting the steel prices and volumes. The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in steel prices.

Profitability susceptible to volatility in input prices
The major raw material [i.e., iron ore and coal] forms the largest component of total cost of sales of steel products. The basic raw materials such as iron ore, coal, pig iron, dolomite, manganese ore which are used for production of sponge iron, billets and silico manganese are directly sourced from the domestic market (less than 10% of total coal purchase is imported) the prices of which are volatile in nature.
However, the group has coal linkage with Southeastern Coalfields Limited (SECL) which is renewable on expiry, mitigating the pricing and supply risk of coal to a certain extent.

Liquidity: Adequate
Adequate liquidity position is marked by healthy cash accruals of Rs.67 crore against debt repayment obligations of around Rs.10 crore in FY22, supported by current ratio of 2.51x as on March 31, 2022. Working capital utilization of the group also remained low at 27% in the last twelve months ending August 2022.
Going forward, the liquidity position of the group is expected to remain adequate on account of healthy cash accruals vis-à-vis scheduled debt repayment in FY23. Also, its unutilized cash credit limit (to the tune of Rs.27 crore as on Aug 31, 2022) is more than adequate to meet its incremental working capital needs over the short to medium term.

Analytical approach: Combined

For arriving at the ratings, CARE has combined the business and financial risk profiles of Gopal Sponge and Power Private Limited (GSPPL) and Phil Ispat Private Limited (PIPL) considering that they have same line of business, common management and operational linkages leading to cash flow fungibility.

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
Manufacturing Companies
Rating methodology- Steel Sector
Rating Methodology: Consolidation
Criteria for Short Term Instruments

About the company

Incorporated in March 2004, Gopal Sponge and Power Private Limited (GSPPL), was promoted by Raipur (Chhattisgarh) based Mr. Ram Gopal Jhanwar and his son, Mr. Vijay Anand Jhanwar. GSPPL is engaged in manufacturing of Sponge iron and Ingots having installed capacity of 60,000 MT of Sponge iron and 30,000 MT of Ingots along with waste heat recovery based captive power plant of 5MW.

In FY12, GSPPL bought a majority stake (i.e., 74%) in Phil Ispat Private Limited (PIPL). Incorporated in 2004, PIPL is engaged in manufacturing Sponge Iron (120,000 MT), MS Billets (57,600 MT) and TMT bars (54,000 MT) along with waste heat recovery based captive power plant of 5MW.

Combined Brief Financials (₹ crore)	Combined FY21 (UA)*	Combined FY22 (UA)*	Combined H1FY23 (UA)*
Total operating income	432.91	590.71	404.00
PBILDT	51.55	80.01	NA
PAT	29.70	54.39	NA
Overall gearing (times)	0.31	0.21	NA
Interest coverage (times)	9.50	15.62	NA

**Combined unaudited (UA) financials of GSPPL & PIPL have been considered; NA – Not available*

Standalone Brief Financials – PIPL (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	H1FY23 (P)
Total operating income	290.70	414.04	253.00
PBILDT	27.76	48.60	NA
PAT	9.73	27.62	NA
Overall gearing (times)	0.82	0.51	NA
Interest coverage (times)	4.59	11.46	NA

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

Status of non-cooperation with previous CRA: Not Applicable

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-Cash Credit		-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March, 2025	21.38	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	30.00	CARE A-; Stable / CARE A2+

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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	40.00	CARE A-; Stable	-	-	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	30.00	CARE A-; Stable / CARE A2+	-	-	-	-
3	Fund-based - LT-Term Loan	LT	21.38	CARE A-; Stable	-	-	-	-

*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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	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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