Uttam Value Steels Limited

September 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	350.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Short Term Bank Facilities	25.00 (Reduced from 75.00)	CARE A1 (A One)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Total Bank Facilities	**375.00 (₹ Three Hundred Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the long-term ratings assigned to the proposed bank facilities of Uttam Value Steels Limited (UVSL) considers the envisaged significant improvement in the operational performance during FY22 (Refers to the time period between April 01 to March 31), coupled with upliftment in profitability margins leading to healthy cashflows. The ratings further derive strength form the capabilities of the Nithia Capital, which has a diverse presence across geographies in the metal and mining industry. In addition, the ratings are supported by the integrated nature of steel manufacturing plant, located strategically in central part of the country close to the raw material sources, supported by enough land parcel for future expansion. CARE has also considered the progress of various capex programs undertaken by the company while arriving at its final rating. CARE has also assigned ratings to the proposed short term facilities for the company.

The ratings strengths are however, tempered by the susceptibility of profit margins to volatility in steel prices, forex exposure and presence of the entity in inherently cyclical steel industry resulting in higher working capital requirements. Going forward, further integration as well as continued oversight from Nithia management team will be critical factors from the credit perspective.

Rating Sensitivities

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

- ✓ Improvement in scale of operations along with PBILDT margin above 21%.
- ✓ Sustained improvement in the operations leading to Net debt/ GCA below 1.2x
- ✓ Timely execution and scaling up of the capex leading to healthy cash accruals.

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

- × Deterioration in scale of operations along with PBILDT margin below 13%
- × Deterioration of Net debt to GCA above 2.5x
- × Significant dividend payment of more than 60% of the cash generated from the operations on yearly basis.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy operational levels aided by improved realizations

During FY22, both the deliveries and realizations from the steel industry had witnessed significant improvement driven by the market demand owing to various geopolitical scenarios, declined production by China and increased cost of raw materials (Mainly Iron ore and Coal). Driven by the increased demand, the production of HRC (Hot Rolled Coil) and CRC (Cold Rolled Coil) from Uttam group has reached a Capacity Utilization (CU) of 63.6% and 77.5% respectively (Increased from 43.97% and 59.64% in FY21). As UGML produces hot metal for UVSL, the increased CU of UVSL has also resulted in the UGML performance. In addition, sales realization had also improved with a Y-o-Y growth rate of 70% for HRC/CRC coils and 40% for galvanized products. Post the takeover, company has recalibrated its existing blast furnace to handle various proportions of feed materials. This will also reduce the power requirement and the current energy consumption of the plant is ~25-30 GJ/MT.

Significant improvement in the financial risk profile.

During FY22, the total operating income of the company increased by around 130% driven by healthy demand from the steel industry coupled with turnaround in the operational efficiency. Post takeover the promoters had employed various cost-effective measures in the operating process and also streamlined the sourcing and distribution chain which has resulted in cost savings for the company.

Business Integration of UGML and UVSL

Post NCLT resolution, Wardha Steel Holding Pte Ltd (WSL) is the promoter entity for both the companies and has significantly increased the operational capabilities of the plants by standardizing the process backed by the technical/financial expertise of the Nithia Capital. Wardha Steel Holdings Pte Ltd, a Singapore-based special purpose vehicle held by Nithia (55.67%) and Carval (44.33%). The distance between two facilities is less than 1 km and is geographically located at Wardha near Nagpur, which has well laid infrastructure connecting different regions in India.

Hot metal from UGML acts a raw material for UVSL which is used in making iron slabs, Hot rolled coil (HRC), Cold rolled coil (CRC) and other products. The excess hot metal post UVSL requirement is sold as pig iron to mills in and around Nagpur region. The

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

procurement, safety regulations and other manufacturing activities are managed by professionals in separate teams in each Company.

Integrated plant and proximity to iron ore mines in and around Nagpur region
The Group has an integrated manufacturing facility based at a single location in Wardha around 70 kms from Nagpur, Maharashtra. The company does not have any captive mines. The company has a sintering facility and operates a blast furnace for which ironore is sourced from the nearby mines from Jabalpur and Gadchiroli areas. Since the company has sintering facility, it has the flexibility to use lower grade iron ore fines/ lumps, the cost of which is lower than higher grade calibrated ore. UGML also has a 15 MW waste heat recovery. The Integrated Steel Complex also houses a 85 MW Coal based owned by Indrajit Power Private Ltd, which is also a captive powerplant and for which thermal coal requirement is sourced from the local markets. The captive plant can meet the groups requirement,ensuring uninterrupted power supply which is lower than the grid cost. However, the Companies also have connection through Grid and power can be drawn from the Grid as and when required and this provides redundancy for the power for the current and as well as enhanced facility. Further, the plant premises also has dedicated railway linewhich is used for transportation of raw materials/finished products resulting lower transit time and costs.

Availability of grant/incentives from Government of Maharashtra.
In order to encourage the dispersal of industries to the less developed areas of the State, Government has been giving a Package of Incentives to New / Expansion Units set up in the developing region of the State since 1964 under a Scheme popularly known as the Package Scheme of Incentives. The policy envisages grant of fiscal incentives to achieve higher and sustainable economic growth with emphasis on balanced Regional Development and Employment Generation through Greater Private and Public Investment in industrial development. In FY22, Uttam has received Rs 177 crore as a part of the subsidy which contributed to approximately 3% of the TOI.

Healthy capital structure supported by improved coverage metrics
As on March 31, 2022, the capital structure of the group marked by overall gearing remained stable at 0.37x driven by healthy profit accruals and no external debt, except long term debts as per the approved Resolution Plan. During FY22, the company had its operations using its accruals and had not availed any bank/FI debt. At the back of increased profitability and stable debt levels, the interest coverage and total debt/PBILDT has increased to 5.26x and 1.44x (PY: 5.10 x and 5.19x) respectively.
Although the company has sound financial flexibility, there is requirement of refinancing of the debt. Owing to the capex activity we will not see any significant component of debt reducing in the short to medium term period.

Well experienced and established track record of new promoters
Uttam group's shareholders comprise Nithia Capital and CarVal Investors, which together hold 100% stake in the company. Nithia Capital (Nithia) founded in 2010 by Mr. Jai Saraf, is a global advisory and investment firm specializing in turning around heavy asset-backed underperforming industries in steel, power, resources, and allied industries. Along with Mr. Jai Saraf the other partners of Nithia are Dr. Johannes Sittard and Mr. Rajib Ranjan Guha. Dr. Sittard, Non-Executive Chairman, has over 40 years of experience in metals & mining industry. Under their management the group, acquired loss making and underperforming steel plants in Trinidad & Tobago, Mexico, Hamburg, Canada, and Kazakhstan and turned them around, thus increasing the group's capacities manifolds – both through acquisition and successful implementation of CAPEX programs.
CarVal Investors, founded in 1987 by Cargill, is an established global alternative investment fund manager. In 2006, it became an independent subsidiary of Cargill and expanded thereafter as a fund manager. Till date it has invested US$ 23 billion in 1,950 transactions across 31 countries. It has an experienced team of 185 employees in five offices in four countries.

Key Rating Weaknesses
Cyclicality of 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 delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand-supply mismatch. Furthermore, the producers of steel products are directly exposed to the volatility of the steel industry.

Regulatory risk and forex risk
Imposition of export duty on iron ore, pellets, and steel intermediaries by the Government of India: Government of India has announced imposition of export duty on iron ore, pellets and few steel and steel intermediaries on May 20, 2022. In case of iron ore, the duty has been raised to 50% on all categories up from 30% that was on lumps above 58% iron content. In case of iron ore pellets, a 45% duty has been imposed which currently does not attract export duty. In case of other classes of steel and intermediaries, a 15% export duty has been imposed w.e.f May 22, 2022. On the other hand, Government has reduced import duty on coking coal and anthracite coal to 0% from 2.5%, and on coke and semi-coke to 0% from 5% to reduce cost of domestic production of steel products.
Coking coal is major raw material for steel players which is imported from Australia and other African nations. As the transaction happen in dollar denomination, the players are exposed to weakening of the rupee.

Impact on domestic manufactures:
- Likely decline in exports on account of hike in exports duty.
- The pressure on domestic steel prices due to diversion of some export sales in domestic market and extra-supply (meant for export) to impact industry capacity utilization levels.
- Deferment/Slowing down of capacity expansion plans

Uttam being a domestic player and also having the capacity to process the batch as per particular requirement (Even to a minimum size of 50 MT) is partially covered by the risks arising from the imposition of export ban.

Liquidity: Strong
The company has sufficient accruals Vis-à-vis its debt obligations. During FY22, the company has carried its operations on cash basis and has no bank/FI limits. Post refinancing the NCD's from Carval, the accruals are expected to be as the differential interest saving would be around Rs 100 crore. Further, the company has completed its capex of blast furnace from internal accruals and might refinance the same in case of any liquidity stress.
Further, the company is also in the final stages of availing working capital limits from banks to further ease the liquidity.

Analytical approach: Combined
CARE has adopted the combined approach, since both the entities are closely held having common ownership, they exhibit cash-flow fungibility, one entity is strategically important to the other' business activity as they operate in similar line of business.

Applicable Criteria
Policy on Default Recognition
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Steel Industry
Rating Methodology: Consolidation
Rating Methodology -Manufacturing Companies

About the Company- Uttam Value Steels Limited
UVSL, previously known as Lloyds Steel Industries Limited (LSIL), was incorporated on April 27, 1970, under the name of Gupta Tubes and Pipes. LSIL's steel plant was commissioned in 1995 in Wardha, Maharashtra. LSIL set up a rolling mill with an installed capacity of 1.00 million Tonnes Per Annum (MTPA) of Hot Rolled (HR) coil along with Steel Melting Shop (SMS) to produce 1.08 MTPA of steel through Electric Arc Furnace (EAF) route. The downstream facilities include Cold Rolled (CR) coil mill (0.38 MTPA capacity) and Galvanized Plain (GP)/Galvanized Corrugated (GC) sheets/coil line (0.25 MTPA capacity).
Combined financials of Uttam Group

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (Prov.)
Total operating income	2,467	5,696	1,551.79
PBILDT	329	1,314	136.05
PAT	5,900	576	2.05
Overall gearing (times)	0.36	0.37	-
Interest coverage (times)	4.88	5.13	2.05

A: Audited; Prov: Provisional
Status of non-cooperation with previous CRA: NA
Any other information: NA
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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Proposed non-fund-based limits		-	-	-	25.00	CARE A1
Fund-based - LT-Working Capital Limits		-	-	-	50.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	NA	300.00	CARE A; Stable

Annexure-2: Rating History of 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	Non-fund-based - ST-Proposed non fund-based limits	ST	25.00	CARE A1	-	1)CARE A; Stable (30-Nov-21)	-	-
2	Fund-based - LT-Working Capital Limits	LT	50.00	CARE A; Stable				
3	Fund-based - LT-Term Loan	LT	300.00	CARE A; Stable				

*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-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-Fund-based - ST-Working Capital Limits	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 Ratings Ltd. 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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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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