# Mahamaya Steel Industries Limited

July 31, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 42.00 | CARE BBB; Stable | Reaffirmed |
| Long Term / Short Term Bank Facilities | 15.00 | CARE BBB; Stable / CARE A3+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The reaffirmation in rating assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) derives strength from long track record of the company and experienced promoters, strategic location of the plant and comfortable financial risk profile. The rating factors in improvement in scale of operations in FY23 (refers to period from April 01 to March 31) in view of favorable demand scenario and increase in sales realization. The rating also takes note of reduction in client concentration in FY23.

The rating is however, constrained by moderate capacity utilization, exposure to group companies albeit reduced in FY23, profitability susceptible to volatility in the prices of raw material and cyclicality associated with the steel industry along with intense competition from the unorganized sector. The rating is also tempered by decline in profitability margin in FY23 in view of increase in raw material costs coupled with change in the company's internal policy pertaining to collection from debtors.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Increase in scale of operation with improvement in its operating margin beyond 5% on a sustained basis

**Negative factors**

- Deterioration in the financial performance in the ensuing quarters coupled with moderation in the overall gearing ratio and TD/GCA beyond 0.75x and 5.50x respectively on a sustained basis
- Increase in group company exposure beyond current level (FY23)

## Analytical approach: Standalone

## Outlook: Stable

The company is expected to sustain its comfortable financial risk profile given low reliance on term debt and absence of debt funded capex in the near term. Further, robust demand scenario of the end user industries and long experience of the promoters in the steel industry is expected to augur well for the operational performance of the company.

## Key strengths

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

MSIL incorporated in 1998 was promoted by Raipur based Mr Ramanand Agarwal who has more than four decades experience in the iron and steel industry. Currently, the day to the affairs of the company is looked after by Mr. Rajesh Agrawal, Managing Director (son of Mr. Ramanand Agrawal) along with the support and guidance from a team of experienced professionals/staffs.

**Strategic location of plant**

The plant location is strategic in terms of ready availability of raw materials, like sponge iron, steel scrap, power etc. in the state of Chhattisgarh. Proximity of the plant to the source of raw-material/ finished goods results in savings of transportation costs thereby improving profitability. In addition, densely populated area of Raipur ensures the easy availability of skilled labour to the company at economical rates.

**Improvement in scale of operations in FY23 albeit low profitability margin**

The company registered improvement in operating income with y-o-y growth of 31% in FY23 to Rs 649.78 crore as against Rs 495.33 crore in FY22. The increase in operating income was mainly on account of improvement in demand from the end user industries and higher realization in FY23 as compared to last year. However, the PBILDT margin reduced from 4.29% in FY22 to 2.78% in FY23 due to increase in raw material cost which couldn't be fully passed on. In addition, the company has also adopted the policy of selling products to customers on receipt of advance payments or credit of maximum 4-5 days from FY23

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

onwards to reduce bad debt. This has also resulted in decline in PBILDT margin in FY23. As articulated by the management, the company expects to report PBILDT margin in the range of 3.00%-3.50% going forward.

**Comfortable financial risk profile**
Capital structure stood comfortable with overall gearing ratio of 0.45x as on March 31, 2023 as against 0.49x as on March 31, 2022. TD/GCA also remained stable at 3.65x in FY23 as against 3.83x in FY22.

**Reduction in client concentration in FY23**
With the increase in scale of operation, the company has reduced its customer concentration in FY23. The 10 customers contributed around 23% of its total sales in FY23 as against 33% of its total sales in FY22.

## Key weaknesses

**Moderate capacity utilization albeit improvement witnessed in FY23**
The capacity utilization of the rolling mill and melting shop slightly improved from 44.23% and 48.89% respectively in FY22 to 54.23% and 72.53% in FY23 respectively, owing to increase in demand from the end user, however; it continues to remain moderate. Further the oxygen/nitrogen plant operated at 15.26% capacity in FY23 as compared to 18.85% capacity in FY22.

**Exposure to group companies albeit reduced in FY23**
The company has exposure to its group companies in the form of investments and loans & advances reduced to Rs 23.51 crore as on March 31, 2023 (accounting for nearly 19.95% of the net worth as on March 31, 2023) as against Rs. 27.70 crore as on March 31, 2022 (accounting for nearly 24.40% of the net worth as on March 31, 2022).

**Profitability susceptible to volatility in the prices of raw materials**
Raw material (sponge iron/scrap) is the major cost driver constituting about 80% of the cost of sales followed by power (~12%) in FY23. 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. Further, lack of captive power arrangements also makes its operations vulnerable to power related issues like shortage, upward revision in prices etc. Presently, the power requirements of the group are met/ sourced by Chhattisgarh State Power Distribution Company Ltd (CSPDCL).

**Cyclicality associated with the steel industry and intense competition from the unorganized sector**
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.

## **Liquidity:** Adequate

The company earned a GCA of Rs.14.57 crore as against debt repayment obligation of Rs.2.54 crore in FY23. Further, the company is expected to earn sufficient cash accruals to meet the debt repayment obligation of Rs 8.36 crore in FY24. Adequate liquidity is also characterized by low average fund-based utilization of 23% for last 12 months ending June 2023.

## **Environment, social, and governance (ESG) risks-** Not Applicable

## 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
Steel
Policy on Withdrawal of Ratings
Rating Methodology-Manufacturing Companies

## About the company and industry

## Industry Classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Commodities | Metals & Mining | Ferrous Metals | Iron & Steel |

Mahamaya Steel Industries Limited (MSIL) was incorporated in May, 1988, by Mr. Ramanand Agrawal as the flagship company of the Raipur-based Mahamaya Group. The company was later reconstituted as a public limited company in August, 1990. MSIL has production facilities for billets/blooms and structural steel products with annual production capacities of 1,74,250 metric tonne (MT) and 205,500 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 the affairs of the company is looked after by Mr. Rajesh Agrawal along with the support and guidance from a team of experienced professionals/staffs.

| Brief Financials (₹ crore | March 31, 2022 (A) | March 31, 2023 (Abridged) |
|---|---|---|
| Total operating income | 495.33 | 649.78 |
| PBILDT | 21.26 | 18.09 |
| PAT | 3.15 | 4.17 |
| Overall gearing (times) | 0.49 | 0.45 |
| Interest coverage (times) | 4.23 | 5.65 |

A: Audited, Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** ICRA continues to maintain the rating of MSIL under 'Issuer Not Cooperating' category vide press release dated February 24, 2023.

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instrument/facility:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

## 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 | - | - | - | - | 35.00 | CARE BBB; Stable |
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | - | - | - | - | 15.00 | CARE BBB; Stable / CARE A3+ |
| Term Loan-Long Term | - | - | - | Nov 2026 | 7.00 | CARE BBB; Stable |

**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 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash Credit | LT | 35.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (21-Jul-22) | 1)CARE BBB-; Stable (06-Dec-21) | 1)CARE BBB-; Stable (30-Sep-20) |
| 2 | Term Loan-Long Term | LT | 7.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (21-Jul-22) | 1)CARE BBB-; Stable (06-Dec-21) | 1)CARE BBB-; Stable (30-Sep-20) |
| 3 | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | LT/ST* | 15.00 | CARE BBB; Stable / CARE A3+ | - | 1)CARE BBB; Stable / CARE A3+ (21-Jul-22) | 1)CARE BBB-; Stable / CARE A3 (06-Dec-21) | 1)CARE BBB-; Stable / CARE A3 (30-Sep-20) |

*Long term/Short term

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | Simple |
| 3 | Term Loan-Long Term | Simple |

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please click here

**Note on the 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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