

Dina Iron & Steel Limited

September 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	31.37 (Enhanced from 28.72)	CARE BB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the long-term bank facilities of Dina Iron & Steel Limited (DISL) takes into account its small scale of operation, profitability being susceptible to volatility in the prices of raw materials, moderate financial performance albeit improvement in FY23, satisfactory capital structure and debt protection indicators and cyclical nature of the steel industry. The ratings, however, continues to derive strength from long-standing experience of the promoters, partially integrated operation, diversified supplier and customer base and favourable location of the plant. The rating also takes into consideration launch of company's own TMT brand and discontinuation of agreement with its principal Kamdhenu Metallic Industries Ltd (KMIL). The ability of the company to establish and scale up the sales of its own brand products in medium to long term will be a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations as marked by total operating income of above Rs.275 crores on sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 4.00% and 1.50% respectively on sustained basis.

Negative factors

- Deterioration in the capital structure as marked by overall gearing ratio above 2.50x on a sustained basis.
- Decline in coverage indicators as marked by interest coverage ratio below 1.50x and total debt to GCA of above 20.00x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the ability of the company sustained its operating performance and profitability levels while continuing to benefit from the experience of its promoters and established market reputation.

Detailed description of the key rating drivers:

Key weaknesses

Small scale of operation

DISL is a relatively small player, with an installed capacity of 108,000 MTPA for Mild Steels Billets, TMT Bars & Wires in comparison to other players operating in this industry. The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress.

Profitability susceptible to volatility in raw material prices

The basic raw material for DISL is sponge iron, the prices of which are volatile in nature. The raw-material consumption accounted for roughly 84% of total cost of sales in FY23. Accordingly, the profitability of DISL is susceptible to volatility in the prices of its raw materials as it is one of the major cost drivers of the company. DISL procures its key raw materials like sponge iron and pig iron from suppliers spread across nearby areas and further the purchase are made either in cash or at most on credit period of 2-5 days.

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

Moderate Financial performance; albeit improvement in FY23

DISL witnessed moderate increase in TOI by ~11.53% to Rs. 215.61 crores in FY23 as against Rs. 193.31 crores in FY22, majorly owing to increase in price realisation. The profitability margins remained stable majorly due to Govt subsidy received by DISL. However, the fluctuating commodity prices during the year affected the actual margins from operations negatively. The company has achieved TOI of Rs.49 crores in Q1FY24 and expects to achieve similar turnover in FY24 as previous year.

Satisfactory capital structure and debt protection indicators

The overall gearing of the company stood satisfactory at 1.51x as on March 31, 2023 as against 1.41x as on March 31, 2022. The gearing levels moderated marginally owing to addition of new working capital term loan worth Rs 2.65 crores during FY23. The interest coverage ratio and TD/GCA improved from 1.86x and 16.41x as on March 31, 2022 to 2.45x and 10.41x as on March 31, 2023.

Cyclicality associated with 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 inordinate delays in the completion impact the responsiveness of supply side to demand movements. Furthermore, the producers of finished steel & related products like DISL are essentially price takers in the market (i.e. their fortune depends upon the construction industry), which directly expose their cash flows and profitability to the volatility of the end user industry.

Key Strengths**Launch of own TMT brand, albeit discontinuation of contract with Kamdhenu Group**

DISL discontinued its royalty-based agreement with Kamdhenu group from April 2023 and launched its products under its own brand namely "Vijay TMT". Previously, DISL used to sell their products under the brand name of Kamdhenu group with a royalty fee of Rs 300 / MT and was restricted to sell its products only in state of Bihar. With its own brand DISL will save on the royalty charges and will be able to expand its presence in newer markets. The ability of the company to establish the brand image of its own brand and eventually achieve stable growth in operations will be a key rating monitorable.

Experienced promoters with satisfactory track record of operations

DISL is managed by Mr. Sanjay Kumar Bhartiya (Promoter) with adequate support from Mr. Prashant Kumar Bhartiya, (Director and brother of Mr. Sanjay Kumar Bhartiya). The company started its operation in 1999 and accordingly has a track record of more than two decades. Mr. Sanjay Kumar Bhartiya, aged 49 years, the promoter of the company, has been associated with Iron and Steel Industry for about 3 decades.

Partially integrated operation and Moderate Capacity Utilization

DISL has a partial integrated facility for manufacturing of TMT bars and wire rods by captive manufacturing of billets rather than procuring it from market leading to reduction of operating cost and increase its profitability. The overall capacity of the firm (TMT, Wire Rods and Billets combined capacity) has increased to 108,000 MT per annum in Q3FY23. The capacity utilisation for TMT Bars and Wire Rod manufacturing was at a moderate level of ~40% during FY23 (P.Y. 54%) attributable to enhanced capacity. The capacity utilisation is expected to improve in near to mid term with the expected growth in scale of operations.

Diversified supplier and customer base

DISL purchases its raw material sponge iron and pig iron from a diversified base of suppliers. A single supplier accounted for about less than 17% of total purchases in FY23. On the other hand, the customer base is also well diversified, with each single customer generating less than 10% of revenue. The top 10 customers in terms of revenue contribution, generated ~30% of the TOI during FY23, mitigating the client concentration risk for DISL.

Favourable locational advantage

The plant location is favourable in terms of readily availability of raw materials, like sponge iron, pig iron etc. Since the states like Bihar, Jharkhand and Odisha are enriched with iron ore, the steel industry has been flourishing in the region which ensures the abundant supply of aforesaid raw materials in the vicinity resulting in cheaper transportation cost. In addition, densely populated area like Patna ensures the easy availability of skilled labour to the company at reasonable wages.

Liquidity: Adequate

DISL generated GCA of Rs 3.53 crore against debt servicing obligation of Rs 2.52 crores during FY23. The CC limit has been moderately utilised at a level of 58% for last 12 months ending July 2023. The company has a debt repayment obligation of Rs.2.10 crore in FY24 against which it is expected to generate sufficient cash accruals. The inventory days improved during FY23 to 33 days from 46 days in FY22, which resulted in improved operating cycle to 65 days from 82 days in FY22.

Applicable criteria

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Policy on Withdrawal of Ratings](#)

[Manufacturing Companies](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Financial Ratios – Non financial Sector](#)

[Steel](#)

About the company and industry**Industry classification**

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

Dina Iron & Steel Ltd. (DISL), promoted by Bhartiya family of Patna, was incorporated in July 1992 as JM Dina Ispat Ltd. (JMDIL) to set up a manufacturing unit for iron and steel products. The company has setup its manufacturing facility (Rolling Mill) at Didarganj in Patna with present installed capacity of 108,000 MTPA. DISL uses billets mainly for captive purpose for manufacturing of TMT bars and wires. The day-to-day affairs of the company are looked after by Mr. Sanjay Kumar Bhartiya with adequate support from his brother Mr. Prashant Kumar Bhartiya (Director), and a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)	Q1FY24
Total operating income	193.31	225.20	48.46
PBILDT	4.32	6.05	-
PAT	1.27	2.20	-
Overall gearing (times)	1.41	1.51	-
Interest coverage (times)	1.86	2.45	-

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

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: Annexure-4

Lender details: Annexure-5

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-Cash Credit		-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	1.50	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	February 2028	4.87	CARE BB+; 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	25.00	CARE BB+; Stable	-	1)CARE BB+; Stable (04-Aug-22)	1)CARE BB+; Stable (06-Oct-21)	1)CARE BB+; Stable (05-Oct-20)
2	Fund-based - LT-Term Loan	LT	4.87	CARE BB+; Stable	-	1)CARE BB+; Stable (04-Aug-22)	1)CARE BB+; Stable (06-Oct-21)	1)CARE BB+; Stable (05-Oct-20)
3	Fund-based - LT-Cash Credit	LT	1.50	CARE BB+; Stable	-	1)CARE BB+; Stable (04-Aug-22)	1)CARE BB+; Stable (06-Oct-21)	1)CARE BB+; Stable (05-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of 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	Fund-based - LT-Term Loan	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.

Contact us

Media Contact	Analytical Contacts
<p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Lalit Sikaria Director CARE Ratings Limited Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in</p>	<p>Arindam Saha Director CARE Ratings Limited Phone: +91-033- 40181631 E-mail: arindam.saha@careedge.in</p> <p>Gopal Pansari Assistant Director CARE Ratings Limited Phone: +91-033- 40181647 E-mail: gopal.pansari@careedge.in</p> <p>Soumadip Kumar Rating Analyst CARE Ratings Limited E-mail: Soumadip.Kumar@careedge.in</p>

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**