MSP Steel & Power Limited
September 07, 2023

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	384.47 (Reduced from 433.73)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	117.00	CARE A3	Reaffirmed

Details of 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 scale of operations in FY23 (refers to the period from April 01 to March 31) albeit moderation in operating margin. The above rating strengths are, however, tempered by company's presence in highly cyclical steel industry, profit susceptible to volatility in the prices of raw materials and finished goods.

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 8% 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.

Analytical approach: Standalone

Outlook: Stable

A stable outlook reflects that the entity is likely to benefit from the experience of the promoters and improve its profitability and scale of operations over the medium term.

Detailed description of the key rating drivers:
Key Rating Strengths
Long track record and experience of the promoters

MSPL incorporated in November 1968, is promoted by Mr. S. K. Agarwal (current chairman), 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 slightly moderated in FY23 on account of PAT losses, however steady reduction in debt limited the moderation to an overall gearing of 2.55x as on March 31, 2023, as against 2.38x as on March 31, 2022 (including LC acceptances and optionally convertible debentures). The OCDs are part of the unsustainable debt portion as per the restructuring agreement in 2018 and have quarterly repayments starting after the repayment of sustainable debt, i.e., September 2025. PBILDT interest coverage also declined to 0.77x in FY23 as against 2.12x in FY22 on account of subdued operating profits. However the profitability has witnessed improvement in Q1FY24 resulting in adequate interest coverage of 2.20x.

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

Financial performance for FY23 characterised by growth in topline, albeit moderation in operating margin

The Total Operating Income (TOI) of MSPL increased by ~8.90% y-o-y during FY23 to ₹ 2,550.40 crore primarily on account of improved sales realization across its entire product segment (except pellet divison) due to elevated domestic steel prices. However, PBILDT margin declined to 2.32% (₹ 59.15 crore) in FY23 vis-à-vis 6.73% (₹ 157.61 crore) in FY22 due to substantial increase in the price of raw material mainly coal and coke.

However the financial performance stands improved in Q1FY24 with TOI of ₹ 675.35 crore against ₹ 625.05 crore in Q1FY23, along with PBILDT margins of 5.48% against 2.28% in Q1FY23. The company is expected to sustain on similar margins and slightly improved scale of operations for FY24.

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 82% of total cost of sales during FY23). 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

During FY23, the domestic finished steel consumption grew by 13.3% y-o-y led by healthy demand from infrastructure, real estate and automobile industries. Steel exports declined sharply by 50.2% y-o-y due to the imposition of export duty on steel products from May-November 2022 coupled with weak global demand due to continued geopolitical tensions and inflationary trends.

As the domestic industry looks to double the steel capacity and production by FY31 from current levels to cater to healthy domestic demand and export opportunities, sustainable availability of key raw materials – iron ore and coking coal and enhancing export competitiveness will be critical. Further, the industry is becoming increasingly conscious of the Environmental, Social and Governance (ESG) aspects and significant investments are expected towards reducing carbon emissions and developing of cleaner production technologies going forward.

The domestic steel consumption is expected to grow at 8-10% in FY24 led primarily by infrastructure push in the pre-election year. The demand uptick from China has been slower than expected which is expected to have a bearing on steel prices in the near term. As Indian players prepare to cater to future demand, accelerating domestic iron ore production and identifying sustainable and cost-effective sources of import-dependent coking coal will be the key. While the transition to cleaner technologies such as green steel is desirable, these technologies require high capital investment, and their adoption will depend on the support provided by the government and industry participants.

Liquidity: Adequate

GCA (adjusted with interest liability charged on OCDs) stood at ₹ 25.41 crore in FY23 vis a vis a debt repayment obligation of ₹ 50.39 crore. For the balance part company used its available liquidity which reduced from ₹ 48.04 crore as on March 31, 2022, to ₹ 10.66 crore as on March 31, 2023. The maximum utilization of the fund-based limits averaged out to ~81% in the last 12 months ended May 2023. MSPL also holds earmarked fixed deposits with the bankers against availed bank facilities (₹ 14.68 crore as on March 31, 2023). The current ratio stood at 1.24x as on March 31, 2023.

Further, the working capital cycle of the company remained steady at 44 days in FY23 as against 48 days in FY22 mainly due to better inventory management. Going forward, the company the expected GCA (adjusted with interest liability charged on OCDs) is likely to provide a cover of around 1.2-1.5x of its debt repayment obligations.

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](#)
[Manufacturing](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

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

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 a semi-integrated steel player, engaged in the manufacturing of pellets, 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 two subsidiaries MSP Cement Ltd (100% holding), and Prateek Mines & Minerals Private Limited (63.69% holding), both having negligible operations.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)	Q1FY24 (UA)
Total operating income	2,341.96	2,550.40	675.35
PBILDT	157.61	59.15	37.03
PAT	33.95	-53.70	1.41
Overall gearing (times)	2.38	2.55	2.20
Interest coverage (times)	2.12	0.77	NA

A: Audited UA: Unaudited; P: Provisional; NA: Not Available; Note: 'the above results are latest financial results 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 Dec. 29, 2022.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the facilities	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		-	-	-	260.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	01-09-2025	124.47	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	7.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	110.00	CARE A3

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-Term Loan	LT	124.47	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jul-22)	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BB+; Stable (06-Jan-21) 2)CARE BB+; Negative (18-Sep-20)
2	Fund-based - LT-Cash Credit	LT	260.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jul-22)	1)CARE BBB-; Stable (03-Aug-21)	1)CARE BB+; Stable (06-Jan-21) 2)CARE BB+; Negative (18-Sep-20)
3	Non-fund-based - ST-Bank Guarantee	ST	7.00	CARE A3	-	1)CARE A3 (07-Jul-22)	1)CARE A3 (03-Aug-21)	1)CARE A4+ (06-Jan-21) 2)CARE A4+ (18-Sep-20)
4	Non-fund-based - ST-Letter of credit	ST	110.00	CARE A3	-	1)CARE A3 (07-Jul-22)	1)CARE A3 (03-Aug-21)	1)CARE A4+ (06-Jan-21) 2)CARE A4+ (18-Sep-20)

5	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (18-Sep-20)
6	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)Withdrawn (07-Jul-22)	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 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
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	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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About us:
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