

## Hothur Ispat Private Limited

October 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term bank facilities	-	-	Reaffirmed at 'CARE BB; Stable/CARE A4' and withdrawn
Short-term bank facilities	-	-	Reaffirmed at 'CARE A4' and withdrawn

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings of the bank facilities of Hothur Ispat Private Limited (HIPL) at 'CARE BB; Stable/CARE A4' and simultaneously withdrawn the ratings with immediate effect. The above action has been taken at the request of HIPL and a 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE Ratings.

The ratings assigned to the bank facilities of HIPL factors in the recovery in operations during 5MFY24 due to the partial rollback of raw material to pellets, experienced promoters, and the company's ability to bring in capital to support the business operations and semi-integrated plant operations.

The ratings are, however, constrained by the piling up of the captive mines iron ore stock, the increase in the inventory levels, the large working capital requirements, the intense competition associated with the highly fragmented industry, and the regulatory risk in the mining industry.

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects the company ability to generate stable operations in the current financial year and the promoters' ability to bring in the funds as and when required to support the business operations.

### Detailed description of the key rating drivers

#### Key weaknesses

##### Piling-up of captive iron ore production, leading to dependency on the working capital requirements

HIPL is able to use only iron ore lumps to produce sponge iron and the extracted iron ore fines were piled up. The company is in the process of obtaining the approvals from the requisite authorities for the sale of iron ore fines in the open market. The inventory holding increased from 89 days in FY22 to 309 days in FY23. CARE Ratings believes that the piling up of the inventory will continue in the business until the approvals from the requisite authorities are received and HIPL will continue to depend on higher working capital requirements. However, the risk is lower to the extent of the promoter's ability to infuse capital in the form of unsecured loans to support the business operations as and when required.

##### Intense competition associated with the highly fragmented industry

The products manufactured by the company face a high degree of competition from other industry players. The steel industry is highly fragmented and competitive due to the presence of a large number of organised and unorganised players. Furthermore, the steel industry remains susceptible to industry cycles, as it is related to other core industry cycles. Any sudden fluctuations in prices may adversely affect the margins.

##### Regulatory risk in the mining industry

The Indian mining industry is highly regulated by the Government of India (GoI), and HIPL's mining business is indirectly exposed to the risk attached to changes in government policies affecting the rights of its customers. However, this risk associated with the mining industry has been mitigated to a large extent after the amendment in the Mines and Minerals (Development and Regulation) Act, 1957, in 2015, which has mandated that all mining leases will be granted through auction by competitive bidding, including e-auction, as opposed to the first-come-first-serve principles that existed prior to the said amendment.

#### Key strengths

##### Rollback of raw materials to pellets leading to improvement in revenues in the current fiscal

With effect from April 2023, the company has rolled back the raw materials type from captive mine iron-ore lumps to pellets, such that two-third of the sponge iron production will be through pellets and the balance one-third of production will be through captive

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

mines iron-ore lumps. This led to an improvement in the revenues during the current financial year. The company has achieved a revenue of ₹70.8 crore during 5MFY24 as against ₹65.61 crore in FY23.

### Experienced promoters

The promoters have over 20 years of industrial experience in the business of manufacturing sponge iron. The promoters are resourceful and have extended financial support through unsecured loans.

### Semi-integrated nature of operations

HIPL has a sponge iron manufacturing plant of 90,000 metric tonne (MT) capacity. HIPL obtained the iron ore mining rights in August 2020 for a lease duration of 50 years with a permission to mine 3.5 lakh million tonne iron ore per annum and commenced mining activities from December 2021 onwards. In addition, HIPL also has a captive 10-megawatt (MW) power plant. During FY23, the company added a separate railway slide to the plant for ease of transportation with a capex of ₹13 crore, which was funded through unsecured loans.

### 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](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals and mining	Ferrous metals	Pig iron

Bellary, Karnataka-based HIPL, incorporated in 2004, is a closely held family business, promoted by Hothur Mohammed Iqbal. The company manufactures sponge iron with an installed capacity of 90,000 MT. During August 2020, HIPL obtained the iron ore mining rights for a lease duration of 50 years and commenced mining operations from December 2021 onwards. HIPL also has a 10-MW captive power plant commissioned in February 2020.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)	5MFY24 (UA)
Total operating income	174.75	65.61	70.80
PBILD	9.00	-0.88	NA
PAT	1.06	-5.86	NA
Overall gearing (times)	1.11	1.54	NA
Interest coverage (times)	4.40	-0.32	NA

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results 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 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn

**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	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A4 (06-Jul-23)	1)CARE A3 (20-May-22)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	1)CARE BB; Stable / CARE A4 (06-Jul-23)	1)CARE BBB-; Stable / CARE A3 (20-May-22)	-	-

\*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/Non-fund-based-LT/ST	Simple
2	Non-fund-based - ST-BG/LC	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

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### About us:

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