Evonith Value Steel Limited

December 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	250.00 (Reduced from 300.00)	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities*	100.00 (Enhanced from 50.00)	CARE A; Stable / CARE A1	Revised from CARE A; Stable
Long-term / Short-term bank facilities*	25.00	CARE A; Stable / CARE A1	Revised from CARE A1

Details of instruments/facilities in Annexure-1.
*revised to long-term/short-term bank facilities.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Evonith Value Steel Limited (EVSL; erstwhile Uttam Value Steels Limited) factors in improvement in its operating performance during H1FY24 (refers to the period April 01 to September 30). The ratings also factor in the likelihood of the sustenance of the same during H2FY24 (refers to the period October 01 to March 31), largely on the back of robust demand growth from the domestic end-user industry, along with normalcy in the steel spreads.

During Q2 and Q3 FY23 (refers to the period July 01 to December 31), the operating performance of the company was impacted on account of significant volatility in the coking coal prices and decline in finished steel prices, which had significantly impacted the steel spreads. However, with stabilisation of coking coal prices, recovery in demand and withdrawal of export duty in November 2022, the Evonith group (EVSL and Evonith Metallics Limited [EML] together referred to as the Evonith group) made recovery in profits from the latter half of Q3FY23 onwards. CARE Ratings Limited (CARE Ratings) expects that although raw material prices will continue to remain volatile, domestic steel players are better placed to partially pass on the increase in raw material prices and record higher saleable steel volumes owing to the strong domestic demand.

CARE Ratings notes the completion of all major capex activities in FY23, which was funded through internal accruals. The company is undertaking refurbishment of Blast Furnace-1, which is also expected to be completed by Q4FY24. Along with its capex activity, and its status of being an Ultra Mega Project, under the Government of Maharashtra's Package Scheme of Incentives 2013, CARE Ratings also takes note of the incentives/subsidies of around ₹200-250 crore yearly received by the company. The company has around ₹2,600-2,800 crore of eligibility certificate for subsidy/incentive to be received over a period of 8-10 years as of October 2022. Any further capex addition by the company will also be eligible for subsidy/incentive.

The company is considering refinancing its NCD Series B, given the ballooning repayment structure in FY26 and FY28 (₹304.54 crore and ₹385.09 crore, respectively) to rationalise its yearly repayment obligations.

The ratings further derive strength from the capabilities of 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 the plant, located strategically in the central part of the country close to the raw material sources, supported by enough land parcel for future expansion, if any.

The rating 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.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations along with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 21%.
- Sustained improvement in the operations leading to total debt/gross cash accruals (TD/GCA) below 2.00x

Negative factors

- Deterioration in the scale of operations along with PBILDT margin below 10% on a sustained basis
- Deterioration of TD/GCA above 3.00x beyond FY24.
- Maintaining minimum free cash balance below ₹150 crore.

Analytical approach: CARE Ratings has adopted the combined approach, since both EML & EVSL (herein referred to as Evonith group) are closely held. Furthermore, having common ownership, they exhibit cash-flow fungibility; one entity is strategically important to the other's business activity, as they operate in the similar line of business.

Outlook: Stable

The stable outlook reflects that the rated entity is likely to generate adequate operating profitability with normalisation in steel prices and favourable demand scenario in the domestic market. Furthermore, with the completion of major capex activities and remaining expected to be completed by Q4FY24, increase in the sales volumes is likely to support the revenue and profitability from FY25 onwards, which will enable the group to sustain its healthy business risk profile over the medium to long-term period.

Detailed description of the key rating drivers

Key strengths

Moderation in performance in FY23, improvement in operating profitability from Q4FY23 continued through Q1FY24 and Q2FY24

In FY23, the group reported combined sales of ₹4,858 crore and net loss (after tax) of ₹317 crore. The utilisation of blast furnace capacity was at around 85%, while finished steel capacity was 50-55%. The performance in FY23 was impacted by volatile coking coal prices, sharp fall in steel prices internationally as well as in India, and imposition of export duty on steel in May 2022. With stabilisation of coking coal prices, recovery in demand and withdrawal of export duty in November 2022, the Evonith group made recovery in profits from the latter half of Q3FY23 onwards. In H1FY24, the group has made combined sales of ₹2,834 crore and PBILDT of ₹403 crore. With completion of major capex activities in FY23 and expected completion of Blast Furnace-1 refurbishment by Q4F24, the group will have 1.3 mtpa of hot metal capacity in FY25 aiding sales growth and profitability.

CARE Ratings notes that post the takeover, the company has recalibrated its existing blast furnace to handle various proportions of feed materials and expects this to reduce the power requirement going forward.

Business integration of EML and EVSL

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 standardising the process backed by the technical/financial expertise of Nithia Capital. WSL, a Singapore-based special purpose vehicle (SPV) 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 EML acts as a raw material for EVSL, which is used in making iron slabs, hot rolled coil (HRC), cold rolled coil (CRC) and other products. The excess hot metal post EVSL requirement is sold as pig iron to mills in and around Nagpur region. The 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 group does not have any captive mines. The Evonith group 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 group 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. EML also has a 15-MW waste heat recovery-based power plant. The integrated steel complex also houses an 85-MW coal-based power plant owned by Indrajit Power Private Ltd (held by erstwhile management), for which thermal coal requirement is sourced from the local markets. The captive plant can meet the requirement of the group,ensuring uninterrupted power supply which is lower than the grid cost. However, the companies also have supply arrangement through grid, and power can be drawn from the grid as and when required providing enough power for current and as well as enhanced facility. Furthermore, the plant premises also have dedicated railway line, which is used for transportation of raw materials/finished products resulting in 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, the 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 (last revised 2013). 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 FY23, the Evonith group received ₹214 crore as a part of the subsidy which contributed to approximately 4.5% of the total operating income (TOI).

Healthy capital structure; however, refinancing of maturing NCD necessary to ease near term liquidity pressure

As on March 31, 2023, the capital structure of the group marked by overall gearing though deteriorated from FY22 levels, continued to remain comfortable at 0.41x.

Evonith group is looking to refinance its higher cost NCD Series-B with bullet repayment in FY26 (₹304.54 crore) and FY28 (₹385.09 crore). The company has received sanction from a private sector bank for refinancing the maturing NCD; however, the company is awaiting NOC from its NCD Series-A holders for charge creation in favour of the bank. As per the company around two-third banks have provided NOCs, and the company expects to receive the balance NOCs to complete the refinancing process before March 31, 2024. For NCD Series-A, the group has a heavy repayment falling due in FY26. CARE Ratings notes that any lower-than-expected generation of cash flows will require refinancing of the heavy repayment falling due in FY26 for NCD Series A.

Financial indicators to improve over the medium term with reduction in debt and adequate profitability

The interest coverage ratio and overall gearing is expected to improve over the medium term with generation of adequate profitability and repayment of maturing debt. TD/PBILDT is expected to improve to less than 2.5x by FY25.

Post takeover, the promoters 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.

Well-experienced and established track record of new promoters

The shareholders of the Evonith group comprise Nithia Capital (Nithia) and CarVal Investors, which together hold 100% stake in the company. Nithia, founded in 2010 by Jai Saraf, is a global advisory and investment firm specialising in turning around heavy asset-backed underperforming assets in steel, power, resources, and allied industries. Along with Jai Saraf, the other partners of Nithia are Dr Johannes Sittard and 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 and 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 programmes.

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 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

During FY23, the Government of India announced export duty on iron ore, pellets and other steel intermediaries leading to cooling off steel prices in the domestic market, which was later scrapped in November 2022. CARE Ratings notes that any further announcement in line with the one mentioned above will further constrain the margin for steel players.

Coking coal is major raw material for steel players which is imported from Australia and other African nations. As the transactions are carried out in dollar denomination, the players are exposed to weakening of the rupee.

Steel outlook for FY24

India's domestic steel demand is expected to grow at a compounded annual growth rate (CAGR) of 8.30% over the next three years. The growth prospects and steel industry outlook in India is favourable. Recent changes in the export taxes and import duties on steel, complemented by the rising demand for affordable housing, infrastructure development and construction projects, have led to a PAN-India need for steel metal.

Liquidity: Adequate

Evonith group has a cash and bank balance of ₹270 crore including margin money balance of ₹66 crore as on September 30, 2023. The group has tied-up ₹175 crore of working capital limits. The utilisation of working capital limits for 12 months ended October 2023 has been moderate at 15-20% providing sufficient cushion to meet short-term needs, if any.

The company completed its capex related to Blast Furnace-2 in FY23 and has taken up the refurbishment of Blast Furnace-1. The cost of refurbishment around ₹100-150 crore will be funded comfortably through internal accruals. With near completion of all the capex, the cash accruals will be prioritised towards debt repayment.

Evonith group is looking to refinance its higher cost NCD Series B with bullet repayment in FY26 (₹304.54 crore) and FY28 (₹385.09 crore). The company has received sanction from a private sector bank for refinancing the maturing NCD; however, the company is awaiting NOC from its NCD Series-A holders for charge creation in favour of the bank. As per the company around two-third banks have provided NOC, and the company expects to receive the balance NOC to complete the refinancing process before March 31, 2024. For NCD Series A, the group has a heavy repayment falling due in FY26. Any lower-than-expected generation of cash flows will require refinancing of the heavy repayment falling due in FY26 for NCD Series A.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel
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

EVSL (formerly known as Uttam Value Steel Limited), 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 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 galvanised plain (GP)/galvanised corrugated (GC) sheets/coil line (0.25 MTPA capacity).

Combined financials of the Evonith Group

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	5,696	4,858	2,834
PBILDT	1,314	122	403
PAT	576	-317	-
Overall gearing (times)	0.37	0.41	-
Interest coverage (times)	5.13	0.46	-

A: Audited; Prov: Provisional; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		Proposed	-	NA	250.00	CARE A; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE A; Stable / CARE A1
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	100.00	CARE A; Stable / CARE A1

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 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	-	-	-	-	-	1)Withdrawn (09-Oct-20)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (09-Oct-20)
3	Non-fund-based - ST-Bank guarantee	ST	-	-	-	-	-	1)Withdrawn (09-Oct-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE A; Stable / CARE A1	-	1)CARE A1 (20-Sep-22)	1)CARE A; Stable (30-Nov-21)	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	100.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable (20-Sep-22)	-	-
6	Fund-based - LT-Term Loan	LT	250.00	CARE A; Stable	-	1)CARE A; Stable (20-Sep-22)	-	-

*Long term/short term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not applicable

Annexure 4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

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

Note on complexity levels of the rated instrument: 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:

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.

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