

## Mark Steels Limited

October 04, 2024

Facilities	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	17.50 (Enhanced from 11.50)	CARE BBB; Stable / CARE A3	Reaffirmed
Short-term bank facilities	1.10 (Enhanced from 0.80)	CARE A3	Reaffirmed

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Mark Steels Ltd (MSL) continue to derive strength from the long presence of promoters in iron and steel industry, strategic location of the plant near raw material source, improvement in profitability margin in FY24 (refers to the period April 01 to March 31) and Q1FY25 despite decline in revenue, comfortable capital structure and debt protection metrics with nil debt position of the company as at balance sheet date and adequate liquidity profile.

The ratings are, however, constrained by its small scale of operation, absence of captive power plant along with its non-operating ingot manufacturing unit, susceptibility of profitability to volatility in prices of raw materials & finished goods, highly commoditised and fragmented nature of secondary steel industry and exposure to cyclical nature inherent in steel industry.

The ratings, further, take note of the buyback carried out by the company in September 2024, wherein the company has bought back 10.4 lakh equity shares of the promoters at a rate of Rs.219 per share.

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

#### Positive factors

- Increasing scale of operations (total operating income above Rs.300 crore) while maintaining PBILDT margin above 4%.
- Moving up in the value chain by way of successful forward integration initiatives and deriving benefit therefrom.

#### Negative factors

- Declining scale of operations below ₹150 crore and operating profitability below 3% on a sustained basis.
- Significant debt-funded capex, leading to deterioration in overall gearing above 0.25x.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects that the entity is likely to sustain its comfortable financial risk profile with negligible debt and strong cash balances & liquid investments while maintaining its profitability margins in the short to medium term.

### Detailed description of key rating drivers:

#### Key strengths

##### Comfortable capital structure and debt protection metrics

The capital structure of the company continues to remain strong, marked by robust overall gearing of nil as on March 31, 2024 (nil as on March 31, 2023) on account of nil debt position. Total Debt/Gross Cash Accruals (TDGCA) also remained robust at nil as on March 31, 2024 (nil as on March 31, 2023). Furthermore, in the absence of any major debt funded capex plans, CARE Ratings Limited expects the capital structure and debt coverage indicators to remain comfortable going ahead.

##### Strategic location of the plant near raw material source

Almost 2.5 MT of raw material needs to be transported to steel plant for producing 1 MT of finished product. Due to the bulky nature of key raw materials, the location of the steel plant becomes a key rating factor. MSL's manufacturing facility is in Purulia district of West Bengal. By virtue of its location, MSL enjoys proximity to source of raw-material (i.e. iron-ore, coal and pig iron) which is procured from suppliers mainly based out of West Bengal & Jharkhand. The customers of the company mainly include steel players based out of West Bengal. The plant is also well connected through road (24 km from National Highway-19 and 36 km from National Highway-14) and railways (19 m from the plant) which facilitates easy transportation of raw materials and finished goods.

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

### Long presence of promoters in iron and steel industry

MSL was incorporated by Manaksia group of Kolkata. The group has four decades of manufacturing experience mainly in steel, aluminium and packing segment. The day-to-day affairs of the company are looked after by Umesh Kumar Jhunjunwala (having experience of about 2 decades in steel industry) along with the support of experienced professionals.

### Improvement in profitability margin in FY24 and Q1FY25 despite decline in revenue

The total operating income (TOI) of the company witnessed moderation to Rs.169.61 crore in FY24 as compared to Rs.197.08 crore in FY23 despite increase in sales volume, due to decline in sales realisation. With decline in average realisation, raw material cost also witnessed decline (specially coal price) which led to improvement in PBILDT margin from 1.57% in FY23 to 5.52% in FY24. Going forward, the operating margins are expected to remain stable in the range of 5%-7%. With low capital costs and high non-operating income of Rs.6.85 crore in FY24 (majorly from fair valuation and sale of mutual funds), PAT margin witnessed improvement and stood more than the PBILDT margin in FY24.

The company earned PBILDT of Rs.3.56 crore on a turnover of Rs.39.40 crore in Q1FY25 (PBILDT of Rs.0.79 crore on a turnover of Rs.45.06 crore in Q1FY24).

### Key weaknesses

#### Small scale of operation

MSL is a relatively small player in the secondary steel producer with only 60,000 MTPA of sponge iron and 53,760 MTPA of ingot manufacturing facility. Due to high conversion cost, the ingot facility is currently not in operations. Accordingly, MSL has low total operating income of Rs.169.61 crore in FY24 (Rs.197.08 crore in FY23) in comparison to players operating in this industry. The small size deprives the entity from the benefits of economies of scale and restricts the financial flexibility of MSL in the times of stress.

#### Profitability susceptible to volatility in prices of raw materials & finished goods

The prices of major raw materials, (iron ore and coal) as well as finished goods (sponge iron) have witnessed high volatility in the past. The raw material is the major cost driver constituting around 87% of total cost of sales of MSL in FY24 (89% of the total cost of sales in FY23). The prices of raw materials are highly volatile in nature due to commodity nature of product, whose prices are determined based on global demand & supply. Given the volatility in raw material prices & lack of backward integration, the profitability of the company is susceptible to fluctuation in raw material prices.

#### Absence of captive power plant

Iron & steel industry is a power intensive industry where stable supply of power is required favourably at minimum possible cost. Power cost minimisation is possible through utilization of captive fuel sources using waste heat gas recovery for power generation. However, MSL does not have any captive power plant and sources power from Damodar Valley Corporation.

#### Highly commoditised and fragmented nature of secondary steel industry

The company operates in a highly commoditised industry with raw material and power cost accounting for 80-90% of the revenues. The secondary steel industry is characterised by intense competition arising from low product differentiation and entry barriers. The highly commoditised and fragmented nature of the secondary steel industry results in intense competition and limit the pricing flexibility, which ultimately restrict the scope for an improvement in profitability.

#### Exposure to cyclical nature inherent in steel industry

Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. 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.

#### Liquidity: Adequate

The liquidity position of the company is adequate with average utilization of working capital limits of around 20%-25% during the last 12 months ended August 2024. With a gearing of nil as on March 31, 2024, the issuer has sufficient gearing headroom, to raise additional debt for its capex, if any. The company earned GCA of Rs.11.92 crore in FY24 as against nil debt repayment obligation. This apart, the company had free cash and liquid investments of Rs.64 crore as on March 31, 2024.

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Iron & Steel](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

MSL, incorporated on August 23, 2001, is a step-down subsidiary of Manaksia Ltd. MSL is operating a sponge iron capacity of 60,000 TPA and ingot capacity of 53,760 TPA in Purulia, West Bengal. The day-to-day affairs of the company are looked after by Umesh Kumar Jhunjhunwala along with the support from a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	197.08	169.61	39.40
PBILDT	3.09	9.36	3.56
PAT	3.24	10.50	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	27.24	70.20	NA

A: Audited; UA: Unaudited; NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	8.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	5.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	4.50	CARE BBB; Stable / CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	0.60	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	0.50	CARE A3

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	8.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (06-Oct-23)	1)CARE BBB+; Stable / CARE A3+ (23-Sep-22)	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	1)Withdrawn (06-Oct-23)	1)CARE BBB+; Stable / CARE A3+ (23-Sep-22)	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)
3	Non-fund-based - ST-Letter of credit	ST	0.50	CARE A3	-	1)CARE A3 (06-Oct-23)	1)CARE A3+ (23-Sep-22)	1)CARE A3+ (04-Oct-21)
4	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3	-	1)CARE A3 (06-Oct-23)	1)CARE A3+ (23-Sep-22)	1)CARE A3+ (04-Oct-21)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST	4.50	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (06-Oct-23)	1)CARE BBB+; Stable / CARE A3+ (23-Sep-22)	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)
6	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	5.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (06-Oct-23)	1)CARE BBB+; Stable / CARE A3+ (23-Sep-22)	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	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 complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Arindam Saha Director <b>CARE Ratings Limited</b> Phone: +91-033- 40181631 E-mail: <a href="mailto:arindam.saha@careedge.in">arindam.saha@careedge.in</a>
<b>Relationship Contact</b>  Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a>	Kamal Mahipal Assistant Director <b>CARE Ratings Limited</b> Phone: +91-033- 40181628 E-mail: <a href="mailto:kamal.mahipal@careedge.in">kamal.mahipal@careedge.in</a>
	Rajat Tiwari Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:rajat.tiwari@careedge.in">rajat.tiwari@careedge.in</a>

### About us:

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