Evonith Value Steel Limited

November 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	725.00 (Enhanced from 250.00)	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	225.00 (Enhanced from 125.00)	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Evonith Group (Evonith Value Steel Limited (EVSL; erstwhile Uttam Value Steels Limited) and Evonith Metallics Limited (EML) factors in the recovery in its operational performance and profitability during FY24 (refers to the period April 01 to March 31) along with completion of its major capex activity and entire refinancing of its long-term debt (with reduced interest cost and longer tenure), during the first seven months of FY25 (refers to the period from April 01 to October 31).

On a year-over-year (y-o-y) basis, during FY24, the company has recorded 28 percent growth in its sales volumes, which has more than compensated the decline in net sales realizations (NSR) of around 8 percent during the same period, resulting in an improvement of around 6 percent in its total operating income (TOI), during the same period. During H1FY25 (refers to the period from April 01 to September 30), the company has recorded moderation in its operating and profitability performance. This was largely on account of decline in NSR owing to decline in global steel prices as well as some moderation in domestic steel demand due to the conduct of general elections during Q1FY25. Furthermore, focus on completion of the major capex activity has also resulted in moderation in the production activity. Going ahead though, CARE Ratings Limited (CARE Ratings) expects improvement in performance both at the operating and profitability levels, on the back of robust demand growth from the domestic end-user industry, increased production output, refurbishment of blast furnace, along with normalcy in the steel spreads. CARE Ratings takes a note of the completion of the major capex activity of the refurbishment of the Blast furnace-1.

CARE Ratings has further taken into consideration, the company's plan of setting up DI pipes plant, with an expected capex of around ₹500-600 crores, which is likely to be funded entirely through internal accruals. This apart the company further plans to undertake some other capex activity which will be also likely to be funded through internal accruals, post the completion of capex of DI pipes capacity. Timely completion of the capex activity without any time and cost over runs and the mode of funding of these capex activities will remain key rating monitorable.

The ratings continue to take into consideration, the 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 crores of subsidy/incentive to be availed over a period of next 8-10 years. Any further capex addition by the company will also be eligible for subsidy/incentive.

CARE Ratings takes note of a recent fire incident at Evonith's plant located in Wardha near Nagpur. According to the Company management, the refurbished Blast Furnace-1 (BF-1) was lit-up on November 4, 2024. As an industry practice, the initial metal and slag output was directed to the Dry Slag Pit (DSP-1). During the process of water spraying to cool the slag in DSP-1, the slag started splashing due to sudden release of steam and resulted in a fire at DSP-1. The activities of BF-1 were temporarily paused due to this incident. Other plant operations continued in a normal manner. BF-1 resumed operations on November 9, 2024.

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

The rating continues to further derive strength from healthy capital structure of the company, supported by adequate cash flows from operating activities and comfortable coverage indicators. In October 2024, Evonith group has successfully refinanced the entire long-term debt in the form of NCD Series A and Series B funds, by securing term loans amounting to ₹1,700 crores. EML and Evonith Value Steel Ltd. (EVSL) raised ₹977 crores and ₹723 crores, respectively. The original NCD's had a maturity date of December 31, 2025, for EVSL and December 31, 2027, for EML, while the new term loans would mature on September 30, 2031, thus easing the medium-term debt repayment pressures and enhancing liquidity management by extending the repayment timeline. Additionally, the refinancing was consummated at a lower interest rate, thereby resulting in savings in interest cost going forward.

The ratings further derive strength from the capabilities of promoter group, Nithia, 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. Further, hot metal produced at Evonith Metallics Limited (EML) serves as a critical raw material for Evonith Value Steel Limited (EVSL), thus leading to cost-effective supply while reducing dependence on external sources for steel manufacturing.

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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained low gearing, below the current levels with Net Debt to profit before interest, lease rentals, depreciation, and taxation (PBILDT) below 2.00x.
- Effectively managing raw material price volatility with PBILDT per tonne (excl. subsidy benefit) above ₹8,000 on a sustained basis.

Negative factors-- Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in the scale of operations along with absolute PBILDT below ₹500 crores on a sustained basis.
- Deterioration of Net Debt/ PBILDT above 3.00x on a sustained basis.
- Delay in implementation of capex activity leading to deterioration of the capital structure from the existing levels.

Analytical approach: Combined

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 are operationally integrated and 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 refurbishment of blast furnace (operational since November 2024), increase in the sales volumes is likely to support the revenue and profitability from FY25 onwards. This will enable the group to sustain its healthy business risk profile over the medium to long-term period. Also, CARE Ratings derives comfort from the stable revenue stream in the form of mega incentives and subsidies earned under the Package Scheme of Incentives.

Detailed description of key rating drivers:

Key strengths

Improved performance in FY24, in terms of operating profitability, volumes and margins

In FY24, the group reported combined sales of ₹5,125 crore and net profit (after tax) of ₹70 crore. The utilisation of blast furnace capacity was over 100%, while finished steel (mainly hot rolled coil (HRC), cold rolled coil (CRC), galvanised coil) capacity utilisation was in range of 66-78%. In FY24, sales realization per tonne of Galvanized Coil experienced a decline, largely due to the elections, which had led to a slowdown in market activity and reduced government infrastructure spending. While the company improved production levels & sales volume by over 28% in FY24, the overall market trends and lower demand owing to general elections affected the sales realization per tonne. In H1FY25, the group has made combined sales of ₹2,487 crore and PBILDT of ₹259 crore. With completion of all major capex activities including refurbishment of Blast Furnace till H1FY25, the group currently has 1.29 mtpa of hot metal capacity starting November 2024, 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 (60.1%) and Carval (39.9%). 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 steel 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 pan India. 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 iron ore 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 ~20-MW waste heat recovery-based power plant. The integrated steel complex also houses an 85-MW coal-based captive power plant owned by Indrajit Power Private Ltd (held and operated by erstwhile management). 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 siding, 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. 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. Evonith group is eligible to benefit from mega incentives under the Scheme for capital investments since 2011. In FY24, the Evonith group accrued ₹265 crore as a part of the subsidy which contributed to ~ 5.2% of the total operating income (TOI).

Healthy capital structure; refinancing has resulted in savings as well as greater cashflow flexibility

As on March 31, 2024, the capital structure of the group marked by overall gearing, continued to remain comfortable at 0.39x. In October 2024, EML and EVSL refinanced their NCD Series A and B (through a bullet payment) by securing term loans from various banks. EML and EVSL raised ₹977 crores and ₹723 crores, respectively. The original NCDs had a maturity date of December 31, 2025, for EVSL and December 31, 2027, for EML, while the new term loans would mature on September 30, 2031. Thus, the refinancing undertaken provides greater flexibility in managing near-term obligations, it will result in the debt remaining on the balance sheet for a longer period, affecting financial metrics and leverage ratios positively over time. However, all further capex planned would be incurred through internal accruals and no debt-funded capex is projected.

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 2.0x by FY26. 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 and ABCarVal Investors, which together hold 95% stake in the company through WSL. 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 and 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. Since 2010, Nithia has invested US$ 500 million in various resource assets around the world. Out of this, it has invested around US$ 300 million in India itself since 2019 in steel making assets.

ABCarVal 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. In 2022, Alliance Bernstein acquired CarVal Investors, rebranding it as AB CarVal. Till date, ABCarval has invested US$ 151 billion in 5,800 deals across 82 countries. It has an experienced team of 210 employees, including ~70 investment professionals with specialization in distressed Corporate Securities, Loan Portfolios, Structured Credit and Clean Energy.

Domestic Steel outlook for FY25

India's finished steel consumption grew by 13% to 136 mtpa in 2023-24 supported by increased demand from automotive and infrastructure sectors. Domestic demand is expected to grow by ~ 7-8% in FY25 and FY26. Growth prospects and steel industry outlook in India is favourable. Recent changes in export taxes and import duties on steel, complemented by the rising demand for affordable housing, infrastructure development and construction projects, has led to a pan-India need for steel metal.

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 softening of 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 mainly from Australia. As the transactions are carried out in dollar denomination, the players are exposed to weakening of the rupee.

Liquidity: Adequate

As on March 31, 2024, Evonith Group has cash and other liquid investments (excluding margin money of ₹ 63 crores) amounting to ₹191 crores. The utilisation of working capital limits for 12 months ended October 2024 has been moderate at 11.5% providing sufficient cushion to meet short-term needs if any.

All capex undertaken, post being acquired in December 2020, has been incurred though internal accruals. The company has completed its capex related to blast furnace (BF-I) in H1FY25. The cost of refurbishment was around ₹120 crore. With completion of all the major capex activities, now the cash accruals will be prioritised towards debt repayment. With refinancing of NCDs worth ₹1,700 crores, company has extended timeline from FY26/FY28 to FY32 and reduced near-term debt servicing obligations, improving liquidity and helping company to retain more cash flow for operational and strategic activities. The company plans to incur a capex of around ₹500-600 crores during the next 2-3 years to be funded entirely through internal accruals.

Environment, social, and governance (ESG) risks: NA

Applicable criteria

Consolidation
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

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 (0.35 MTPA capacity) and galvanised plain (GP)/galvanised corrugated (GC) sheets/coil line (0.25 MTPA capacity).

Combined Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	H1FY25 (Prov.)
Total operating income	4,858	5,125	2,487
PBILDT	119.59	678.44	259
PAT	-317.45	70.31	NA
Overall gearing (times)	0.41	0.39	NA
Interest coverage (times)	0.46	2.51	1.88

UA: Unaudited; NA: Not Available; Prov: Provisional; Note: these are combined financial results based on audited results of EML & EVSL

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	30-09-2031	723.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	Proposed	2.00	CARE A; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	125.00	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 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	125.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (19-Dec-23)	1)CARE A1 (20-Sep-22)	1)CARE A; Stable (30-Nov-21)
2	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 / CARE A1 (19-Dec-23)	1)CARE A; Stable (20-Sep-22)	-
3	Fund-based - LT-Term Loan	LT	725.00	CARE A; Stable	-	1)CARE A; Stable (19-Dec-23)	1)CARE A; Stable (20-Sep-22)	-

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA

Annexure-4: Complexity level of 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 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 for 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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