# Magadh Metal Industries Private Limited

January 07, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 70.00 | CARE BB+; Stable | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

For arriving at the rating, CARE Ratings Ltd. (CARE) has taken a combined view of the operational and financial profiles of Magadh Metal Industries Private Limited (MMIPL) and Magadh Industries Private Limited (MIPL), because of the managerial, operational, and financial linkages between the Group organisations.

The rating assigned to MMIPL is constrained from the company's small scale and initial stages of operations. The rating is also constrained by the group's working capital intensive nature of operations, thin profitability due to non-integrated operations, limited geographical presence and moderate capital structure and debt-protection metrics. The rating is further constrained by the group's exposure to inherent risks in the steel industry including competition, input price volatility and cyclicality.

However, the rating derives strength from experience of promoters, strong distribution network with diversified customer base, proximity to raw material sources and improving operational performance of the group.

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

### Positive factors

- Operating margin of the group above 5% on a sustained basis.
- Improvement in overall gearing of the group below 1x on a sustained basis.

### Negative factors

- Decline in operating margins of the group below 3% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 3x of the group.
- Any further increase in exposure to group companies by way of advances or guarantees.

**Analytical approach:** Combined.

For arriving at the rating of MMIPL, CARE has combined the business and financial risk profiles of MMIPL and MIPL, as they have common shareholders with common management, are in the same line of business with operational and financial linkage and MIPL providing guarantees against debt facilities of MMIPL.

**Outlook:** Stable

CARE Ratings Limited (CARE Ratings) believes that the group will benefit from experience of promoters, which will help improve its financial and operational performances going ahead.

## Detailed description of key rating drivers:

## Key weaknesses

### Thin profitability due to non-integrated operations

The profitability of the steel players is largely dependent on the raw material pricing, which is determined majorly by the global demand-supply dynamics. The prices of major raw materials, like Iron-ore, MS Scrap, Lignite, Coal as well as intermediate goods like sponge iron and Billets and finished goods like TMT, Hot-rolled coils and others have witnessed high volatility in the recent years. MIPL produces TMT bars from billets, which is supplied by MMIPL and other domestic suppliers.

Since raw material is the major cost driver, it constituted around 94% of the total cost of sales in FY24 for the group remaining at a similar level as compared to FY23. The profitability margin is susceptible to fluctuation in raw material prices, and these then determine the cost of making the final product, that is steel.

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

**Limited geographical presence**
The combined entities earn most of its revenue through sales in Bihar. This exposes the group's revenue and profitability risks due to geographical concentration. The group is working on its geographic expansion plans to cater to other states through its brand 'Mahan TMT'. It also has presence in few markets of Uttar Pradesh.

**Working capital intensive nature of operation**
The operations of the combined entities are working capital intensive in nature. The working capital cycle of both the companies remained stretched on account of negligible credit obtained from the suppliers, as the group generally pays its suppliers in advance and in return receives a trade discount of close to 2%, thus majorly its utilization of bank limits is towards payments for these advances. The combined entity recorded working capital cycle of 99 days for FY24 as against 76 days in previous year owing to increase in collection period. The group needed to provide higher credit periods to dealers in the new markets it is entering. The companies also needs to maintain a moderate inventory of around 26 days to ensure uninterrupted supply to its customers. The utilization of fund-based limits remained high at 93% for twelve months period ending November'24.

**Intense competition and cyclicality in the steel industry**
Steel is a cyclical industry, strongly correlated to economic cycles since its key users; construction, infrastructure, automobiles, and capital goods are heavily dependent on the state of the economy. Fall in demand in these sectors directly impacts demand of steel products. The steel industry is sensitive to shifting business cycles, including changes in general economy, interest rates and seasonal changes in the demand and supply conditions in the market. The steel industry is highly competitive with organized and unorganized players and limited product diversity due to commodity nature of products. Over the years, the industry has become more organized with the share of unorganized players reducing, margins continue to be under pressure due to industry fragmentation.

**Moderate capital structure and debt-protection metrics**
As on March 31, 2024, the overall gearing of the combined entity stood at 2.18x as compared to 2.26x in previous year. The capital structure majorly consists of working capital borrowing from banks. Additionally, MIPL has around Rs 18.54 crore of term loans in form of GECL and vehicle loan. The debt coverage indicators of the group continue to remain moderate with Total Debt/ GCA at 23.63x as on March 31, 2024 ( 19.63x as on March 31, 2023), and interest coverage at 1.67x in FY24 (1.95x for FY23). Going ahead, the capital structure of the group is projected to improve with accretion of profit in networth and further infusion of capital of around Rs 6.00 crore by the promoters during FY25 in MMIPL.

## Key strengths

**Experienced promoters and long-track record of operations**
The group has been in operation since 1998 and its long-standing presence has helped establish healthy trade relations with customers and suppliers. The entity started trading TMT bars and later moved to manufacturing in Bihar. It manufactures TMT under its own brands, namely, 'Magadh TMT' and 'Mahan TMT', which are well established and have high customer recall. Sanju Kumar, Shreyash Shresth and Anshul Shresth are directors of the company with Sanju Kumar having decades of experience in related businesses. He is supported by a team of proficient engineers and workforce.

**Established distribution network with diversified customer base**
The group sells its products through a strong dealership network, which is consistently expanding. It has a strong network of close to 3,800 dealers in Bihar and Uttar Pradesh. The customer base is diversified with top ten customers contributing around 24% of total sales in FY24 (~16% in FY23). The diversified customer base operating through a large dealer network mitigating client concentration risk while the promoter's extensive experience ensures smooth order flow from clients. The group is expected to maintain a diversified customer base going ahead.

**Strategic location of the plant**
Due to bulky nature of key raw materials for making TMT (majorly billets, ingots and coal), location of the steel plant becomes a key rating factor. MIPL's manufacturing facility is in Patna, Bihar. The company sources billet from local and adjacent area suppliers from those located in Orissa, Jharkhand, Durgapur, and Patna, while it meets its coal requirements from Eastern Coalfields Limited. The group also has a diversified supplier base ensuring regular supply of raw material for uninterrupted production. Proximity to raw material sources and end-user market also helps to maintain tight delivery timelines. The plant is also well-connected through road and railways, facilitating easy transportation of raw materials and finished goods.

**Improving financial performance of the group; albeit small scale of operations of MMIPL**
The group recorded a turnover of Rs 1281 crore in FY24 as compared to Rs 1349 crore in previous year. The moderation was observed owing to lower realisation in the market. However, the sales increased by 12% y-o-y in terms of volume. The PBILTD margin for the combined entity remained at around 3.20% in FY24 which improved from 2.52% in FY23. Whereas, for MMIPL, FY24 being the first year of operation, it recorded a turnover of Rs 130 crores with PBILTD margin of 2.78%.
Additionally, during H1FY25, the combined entity recorded sales of Rs 711 crores.

**Liquidity**: Adequate
The liquidity of the group is marked adequate with GCA of Rs 12.37 crores in FY24 as against repayment obligations of Rs. 7.48 crore. The combined entity has repayment obligation of Rs. 8.26 crore in FY25 against which it is expected to generate sufficient cash flows.
The operating cycle of both the companies remained stretched on account of negligible credit obtained from the suppliers, as the group generally pays its suppliers in advance and in return receives a trade discount of close to 2%, thus majorly its utilization of bank limits is towards payments for these advances. Furthermore, as the group is entering into new markets in the state of Bihar the company have to provide higher credit periods to the dealers. The average utilisation of fund based limits stood at 98% for MIPL and 93% for MMIPL for twelve months period ending November 2024.

## Applicable criteria

Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Iron & Steel
Wholesale Trading

## About the company and industry

### Industry classification

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

Magadh Metal Industries Private Limited (MMIPL) was incorporated in August 2022. The company is engaged in trading MS billets and its entire sales is directed to MIPL only.
Magadh Industries Private Limited (MIPL) was incorporated on October 15, 1998, with its registered office and manufacturing facility in Patna. The company manufactures TMT bars under their registered brands 'Magadh TMT', 'Magadh Mahan', 'Magadh Smart' and 'Mahan TMT' with a capacity of 3,60,000 MTPA. Initially, the company started selling and distributing TMT Bars and in 2008, the company established a unit, Magadh Industries Private Limited in Didarganj, Patna, to manufacture TMT bars. Apart from TMT bars, the company is also engaged in manufacturing, selling and distributing 5.5 (TMT) coils, which started in 2014 at the same unit.

| Combined Brief Financials (₹ crore) | March 31, 2023 (UA) | March 31, 2024 (UA) | H1FY25 (UA) |
|---|---|---|---|
| Total operating income | 1,348.69 | 1,280.81 | 711.02 |
| PBILDT | 34.04 | 40.94 | 32.49 |
| PAT | 9.22 | 9.02 | - |
| Overall gearing (times) | 2.26 | 2.18 | - |
| Interest coverage (times) | 1.95 | 1.67 | - |

UA: Unaudited; Note: these are latest available financial results

| Standalone Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|---|---|---|---|
| Total operating income | 0.00 | 130.29 | 215.60 |
| PBILDT | -0.03 | 3.62 | 6.63 |
| PAT | 0.00 | 0.92 | |
| Overall gearing (times) | 0.00 | 2.88 | |
| Interest coverage (times) | 0.00 | 1.52 | |

A: Audited UA: Unaudited; 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 - LT-Cash Credit | | - | - | - | 70.00 | CARE BB+; Stable |

## 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 - LT-Cash Credit | LT | 70.00 | CARE BB+; Stable | | | | |

LT: Long 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 - LT-Cash 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 for clarifications.

## Contact us

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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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