Mahamaya Steel Industries Limited

July 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	42.00 (Reduced from 46.01)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	15.00 (Reduced from 20.00)	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Total Bank Facilities	**57.00 (₹ Fifty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating of the bank facilities of Mahamaya Steel Industries Limited (MSIL) takes into account improvement in financial performance in FY22 (refers to period April 01 to March 31) and capital structure leading to improvement in debt coverage indicators.

The rating continues to derive strength from long track record of the company and experienced promoters, strategic location of the plant. The rating however is constrained by moderate capacity utilization, low profitability margins, high exposure to group companies, client concentration risk albeit reduced in FY22, profitability susceptible to volatility in prices of raw material, cyclicality associated with steel industry amidst intense competition.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to increase its scale of operation with improvement in its operating margin beyond 8% on a sustained basis
- Reduction in overall gearing below 0.50x on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the financial performance coupled with moderation in the overall gearing ratio and debt coverage indicators beyond current levels (FY22)
- Increase in group company exposure beyond the current level (FY22)

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the company and experienced promoters

MSIL incorporated in 1998 was promoted by Raipur based Mr Ramanand Agarwal who has more than four decades experience in the iron and steel industry. Currently, the day to the affairs of the company is looked after by Mr. Rajesh Agrawal, Managing Director (son of Mr. Ramanand Agrawal) along with the support and guidance from a team of experienced professionals/staffs.

Strategic location of plant

The plant location is strategic in terms of readily availability of raw materials, like sponge iron, steel scrap, power etc. in the state of Chhattisgarh. Proximity of the plant to the source of raw-material/ finished goods results in savings of transportation costs thereby improving profitability**.** In addition, densely populated area of Raipur ensures the easy availability of skilled labour to the company at economical rates.

Improvement in financial performance in FY22 albeit low profitability margins

The company registered substantial improvement in total operating income (TOI) with y-o-y growth of 97.41% to Rs 495.32 crore in FY22 mainly on account of improvement in demand from the end user industries and higher realisation of steel products. However, the PBILDT margin remained low and declined to 4.29% in FY22 from 5.21% in FY21 due to increase in the raw material cost. Further, the company reported GCA of Rs.14.44 crore in FY22 as against Rs. 5.53 crore in FY21.

Improvement in capital structure and debt coverage indicators

Capital Structure continued to remain moderate with improvement in the overall gearing ratio (after considering entire preference share capital as part of total debt) from 1.21 times as on March 31, 2021 to 0.65 times as on March 31, 2022 on account of redemption of preference share capital, infusion of equity coupled with lower utilisation of working capital limit as on March 31, 2022. The TD/GCA improved substantially to 4.61 times as on March 31, 2022 as against 18.21 times as on March 31, 2021 on account of improvement in GCA level and sharp reduction in overall debt level.

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

Key Rating Weaknesses

Moderate capacity utilization albeit improvement witnessed in FY22

The capacity utilization of the rolling mill and melting shop slightly improved but continued to remain moderate at 44.23% and 48.89% respectively in FY22 as against 31.68% and 23.72% in FY21 respectively, owing to sharp increase in demand from the end user. Further in 2MFY23, the CU of rolling mill reduced to 37.24% whereas for melting shop improved to 62.55%. Further the oxygen/nitrogen plant operated at 18.85% capacity in FY22 as compared to 17.30% capacity in FY21 (14.77% in 2MFY23).

Client concentration risk albeit reduced in FY22

The client concentration risk although continued to be high, has been substantially reduced in FY22. The top 10 customers contributed 33% of its total sales in FY22 as against about 60% in FY21.

High exposure to group companies

Exposure to its group companies in the form of investments and loans & advances has reduced to Rs. 27.70 crore as on March 31, 2022 (accounting for nearly 27.10% of the net worth as on March 31, 2022) as against Rs.33.09 as on March 31, 2021 (accounting for nearly 38.55% of the net worth as on March 31, 2021). After adjusting the net worth for exposure to group companies and adjusting total debt for equity portion of preference share capital, adjusted overall gearing stood at 0.47x as on March 31, 2022 (1.08x as on March 31, 2021)

Profitability susceptible to volatility in the prices of raw materials

Raw material (sponge iron/scrap) is the major cost driver constituting about 76% of the cost of sales followed by power (~12%) in FY22. The prices of its raw materials are highly volatile in nature and any upward movement in the prices of the raw material without any corresponding movement in the finished goods prices may adversely affect the profitability of the company. Further, lack of captive power arrangements also makes its operations vulnerable to power related issues like shortage, upward revision in prices etc. Presently, the power requirements of the group are met/ sourced by Chhattisgarh State Power Distribution Company Ltd (CSPDCL).

Cyclicality associated with the steel industry and intense competition from the unorganized sector

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. It is also characterized by high degree of fragmentation due to the presence of numerous unorganized players. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers.

Industry Outlook

The steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a year-on-year (y-o-y) basis in FY22. CareEdge Research believes the medium-term steel demand will continue to be robust due to the government's infrastructure push and increased investments amid an overall rebound in the Indian economy. Steel exports remained robust for the third straight year and increased by 25.1% during FY22 after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry, an uptrend in global steel prices and higher demand from European nations led to the increased shipments from India. International steel prices were on an uptrend and rose significantly to upwards of USD 1,200 per tonne in March 2022 due to the geopolitical tensions around Russia. Increased international steel prices led to significantly higher export volumes, which in turn led to an increase in domestic steel prices. Given the rise in steel, prices have an adverse impact on infrastructure push and a secondary impact on inflation, the government, in May 2022, imposed a 15% export duty on a range of finished steel products - making exports less attractive. Also, the import duty on various raw materials (like coking coal, iron-ore, ferro-nickel) was reduced. This will likely improve domestic steel availability as well as soften the domestic steel prices.
Steel production in India will be driven by an increase in allocation of capex by 36% y-o-y at Rs. 7.5 lakh crore in Union Budget 2022-23, approval of Production Linked Incentive (PLI) Scheme for specialty steel, Pradhan Mantri Awas Yojana (PMAY) scheme and Jal Jeevan Mission.

Liquidity: Adequate

The company earned a GCA of Rs.14.44 crore as against debt repayment obligation of Rs.3.57 crore in FY22. Apart from this, the company redeemed preference share capital amounting Rs.14.66 crore and infused equity capital of Rs 14.47 crore in FY22. Further in FY23, the company has term debt repayment obligation of Rs.1.20 crore which would be met out of cash accruals. Adequate liquidity is also characterized by average fund based and non-fund based utilization of 30% and 37% respectively for last 11 months ending April 30, 2022.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
Liquidity analysis for non-financial sector entities
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Criteria for Short term Instruments

About the company
Mahamaya Steel Industries Limited (MSIL) was incorporated in May, 1988, by Mr. Ramanand Agrawal as the flagship company of the Raipur-based Mahamaya Group. The company was later reconstituted as a public limited company in August, 1990. MSIL has production facilities for billets/blooms and structural steel products with annual production capacities of 1,74,250 metric tonne (MT) and 205,500 MT, respectively. This apart, the company has a gas plant with an annual production capacity of 900,000 cubic metre (CuM). The company manufactures heavy and light steel structural products such as joists, angles, beams, channels etc. The products are sold under the brand name "MAHAMAYA". The day to the affairs of the company is looked after by Mr. Rajesh Agrawal along with the support and guidance from a team of experienced professionals/staffs.

Brief Financials (Rs. crore)	FY21(A)	FY22 (Abridged)	Q1FY23 (A)
Total operating income	250.91	495.32	NA
PBILDT	12.63	21.26	NA
PAT	0.55	3.15	NA
Overall gearing (times)	1.21	0.65	NA
Interest coverage (times)	1.96	4.23	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: ICRA Ratings continues to maintain rating of MSIL under "Issuer Not Cooperating Category" vide press release dated December 31, 2021

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 for this company: Annexure 4

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 - LT-Cash Credit	-	-	-	-	35.00	CARE BBB; Stable
Term Loan-Long Term	-	-	-	Dec'26	7.00	CARE BBB; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	15.00	CARE BBB; Stable / CARE A3+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Dec-21)	1)CARE BBB-; Stable (30-Sep-20)	1)CARE BBB-; Stable (27-Dec-19)
2	Term Loan-Long Term	LT	7.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Dec-21)	1)CARE BBB-; Stable (30-Sep-20)	1)CARE BBB-; Stable (27-Dec-19)
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	15.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (06-Dec-21)	1)CARE BBB-; Stable / CARE A3 (30-Sep-20)	1)CARE BBB-; Stable / CARE A3 (27-Dec-19)
4	Fund-based - LT-Proposed fund based limits	-	-	-	-	-	-	1)CARE BBB-; Stable (27-Dec-19)

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Term Loan-Long Term	Simple
3	LT/ST Fund based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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