Mark Steels Limited

September 23, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term/Short Term Bank Facilities	**16.50**	CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Revised from CARE BBB; Positive (Triple B; Outlook: Positive)
Short Term Bank Facilities	**0.80**	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**17.30 (₹ Seventeen Crore and Thirty Lakhs Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Mark Steels Ltd (MSL) is on account of sustained comfortable capital structure and debt protection metrics alongwith robust liquidity built over the years. Besides, the financial performance, though moderated in FY22 (refers to the period from April 01 to March 31), continued to remain healthy and was better than pre-covid levels. The Company has been growing its surplus liquidity over the years with investment in Mutual Fund (MF) and cash and bank balance at around Rs.50 crore as on March 31, 2022.

The ratings continue to draw strength from strategic location of the plant near raw material source, forward integration albeit moderate capacity utilisation of ingot facility and long presence of promoters in iron and steel industry. The ratings are, however, constrained by small scale of operation, susceptibility of profitability to volatility in prices of raw materials & finished goods, absence of captive power plant, highly commoditised and fragmented nature of secondary steel industry, and exposure to cyclicality inherent in steel industry.

Rating sensitivities

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

- Increase in scale of operations (TOI over Rs.500 crore) while sustaining profitability and comfortable capital structure (Overall gearing ratio below 0.2x).
- Moving up in the value chain by way of successful forward integration initiatives and deriving benefit therefrom.

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

- Decline in scale of operations below Rs.150 crore and operating profitability below 6%.
- Significant debt-funded capex, leading to deterioration in net leverage (net debt/tangible networth above 0.5x)

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Comfortable capital structure and debt protection metrics: Capital structure of MSL continued to remain highly comfortable with overall gearing and total debt/ GCA at 0.01x and 0.09x respectively as on March 31, 2022 (as against 0.01x and 0.07x respectively as on March 31, 2021). The overall gearing further improved to 0.01x as on March 30, 2022. Furthermore, in the absence of any major debt funded capex plans, capital structure and debt coverage indicators are expected to remain comfortable going ahead. However, any significant debt-funded capex, leading to deterioration in net leverage position shall be key rating monitorable.

Strategic location of the plant near raw material source: Almost 2.5MT of raw material needs to be transported to steel plant for producing 1MT 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.

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

Forward integration albeit moderate capacity utilisation (CU) of ingot facility: Although MSL has forward integration in the form of ingot production, majority of sponge iron is sold without conversion to ingot. The capacity utilization of the ingot facility was low at 9.35% in FY22 and 18.31% in FY21 as company is focussing more on selling sponge iron offering higher margin vis-à-vis ingots. The CU of sponge iron facility was high at 97.35% in FY22 (over 100% in FY21) and 80% in Q1FY23.

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 Mr. Umesh Kumar Jhunjhunwala (having experience of about 2 decades in steel industry) along with the support of experienced professionals.

Key rating 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. Accordingly, MSL has low total operating income of Rs.193 crore in FY22 (Rs.159 crore in FY21) 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. Since raw material is the major cost driver (around 85%-90% of the total cost of sales in FY21-FY22), the profitability margin of MSL is susceptible to input price fluctuation. Coal prices of South African thermal coal, a global benchmark, have been on an upward trajectory since November 2021 and the geopolitical tensions between Russia and Ukraine had further pushed up the international coal 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.

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 DVC.

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 cyclicality 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.

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, on account of increased consumption by the government on developing infrastructure as well as the resumption of economic activities and construction work on low-base effect. The steel industry faced a volatile and rapidly changing market in the first half of 2022, with prices and supply changing hastily due to a variety of factors, including geopolitical conflict, raw material costs and supply chain constraints, apart from the imposition of export duty by the government. 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. Nonetheless, the long term outlook for Indian steel remains stable. Steel production in India remained flat on a month-on-month basis in July 2022 at 9.97 mt, down 0.7% year-on-year, after the imposition of export duty(15%) on steel in May this year.

The Union Budget for 2022- 2023 has a sharp 36% y-o-y increase in allocation for Capex at 7.5 lakh crore. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, roads, transport and highways would provide impetus to steel consumption.

Liquidity Analysis: Strong
The liquidity position of the company is strong with average utilization of working capital limits at ~16% for the last 12 months ended June'22. With a gearing of 0.01x as on March 31, 2022, the issuer has sufficient headroom, to raise additional debt for its capex, if any. The company has earned a GCA of Rs.11.41 crore in FY22 as against debt repayment obligation of Rs. 0.16 crore and company will continue to have significant GCA against negligible debt repayment in FY23. This apart, the company had free cash and liquid investments of Rs. 49.84 crore as on March 31, 2022 and Rs.48.86 crore as on June 30, 2022.

Analytical approach: Standalone

Applicable criteria

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

About the company

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 Mr. Umesh Kumar Jhunjhunwala along with the support from a team of experienced professionals.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
Total operating income	158.77	193.44	41.23
PBILDT	22.40	14.18	NA
PAT	16.59	10.51	NA
Overall gearing (times)	0.02	0.01	NA
Interest coverage (times)	85.76	82.94	NA

A: Audited, Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	4.50	CARE BBB+; Stable / CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	5.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	-	0.50	CARE A3+
Non-fund-based - ST-Forward Contract	-	-	-	-	0.30	CARE A3+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	2.50	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	4.50	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating history for the 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/Non-fund-based-LT/ST	LT/ST*	4.50	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)	1)CARE BBB; Stable / CARE A3+ (06-Oct-20)	1)CARE BBB; Stable / CARE A3+ (25-Sep-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	5.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)	1)CARE BBB; Stable / CARE A3+ (06-Oct-20)	1)CARE BBB; Stable / CARE A3+ (25-Sep-19)
3	Non-fund-based - ST-Letter of credit	ST	0.50	CARE A3+	-	1)CARE A3+ (04-Oct-21)	1)CARE A3+ (06-Oct-20)	1)CARE A3+ (25-Sep-19)
4	Non-fund-based - ST-Forward Contract	ST	0.30	CARE A3+	-	1)CARE A3+ (04-Oct-21)	1)CARE A3+ (06-Oct-20)	1)CARE A3+ (25-Sep-19)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	2.50	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)	1)CARE BBB; Stable / CARE A3+ (06-Oct-20)	1)CARE BBB; Stable / CARE A3+ (25-Sep-19)
6	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	4.50	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (04-Oct-21)	1)CARE BBB; Stable / CARE A3+ (06-Oct-20)	1)CARE BBB; Stable / CARE A3+ (25-Sep-19)

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple
6	Non-fund-based - ST-Letter of credit	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 instruments: 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:
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