Uttam Value Steels Limited

November 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	75.00	**CARE A; Stable (Single A; Outlook: Stable)**	**Assigned**
Total Bank Facilities	**75.00 (Rs. Seventy-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed bank facilities of Uttam Value Steels Limited (UVSL), considers the significant improvement in the financial and operational performance of the company during FY21 and H1FY22, post takeover by the new promoters in late December 2020. The ratings derive strength from its new promoters Nithia which has a diverse presence across geographies in the steel, metal and mining industry. The ratings also factor in various measures taken by Nithia in turning around the manufacturing facility, which along with the revival in domestic demand and sharp increasing in realizations has resulted into substantial cash flow generation. The other factors which contribute to strengths are business integration of Uttam group's flagship entities Uttam Galva Metallics Limited (UGML) and UVSL, comfortable capital structure and strong liquidity.

The ratings strengths are however, tempered by the susceptibility of profit margins to volatility in steel prices and presence of the entity in inherently cyclical steel industry. Going forward, further integration as well as continued support from Nithia will be critical factors from the credit perspective.

Rating Sensitivities

Positive rating sensitivities along with quantifiable attributes –

- *Improvement in scale of operations along with PBILDT margin above 25%*
- *Timely execution and commissioning of capex, leading to improvement in operational performance*

Negative rating sensitivities along with quantifiable attributes –

- *Deterioration in scale of operations along with PBILDT margin below 18%*
- *Delay in execution and commissioning of capex (blast furnace)*
- *Deterioration in overall gearing beyond 0.50x.*
- *Any cash-flow fungibility with other group companies*

Detailed description of the key rating drivers

Key Rating Strengths

Well experienced and established track record of new promoters

Uttam group's shareholders comprise Nithia Capital and CarVal Investors, which together hold 95% stake in the company, whereas the remaining stake is held by the existing lenders.

Nithia Capital (Nithia) founded in 2010 by Mr. Jai Saraf, is a global advisory and investment firm specializing in turning around heavy asset-backed underperforming industries in steel, power, resources and allied industries. Since 2010, Nithia has invested US$ 500 million in various resource assets around the world. Along with Mr. Jai Saraf the other partners of Nithia are Dr. Johannes Sittard and Mr. Rajib Ranjan Guha. Dr. Sittard, Non-Executive Chairman, has over 40 years of experience in metals & mining industry. Dr. Sittard and Mr. Saraf's relationship goes beyond three decades when they held positions in Mittal Steel (now Arcelor Mittal). Under their management the group, acquired loss making and underperforming steel plants in Trinidad & 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 programs. Further, in 2000, they both left the group and started their own advisory firm where they helped their clients to acquire ferrous and non-ferrous, metals and mining assets across the globe. After founding Nithia, they invested in Brazil and other countries acquiring underperforming metal plants and turning them around.

CarVal 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. Till date it has invested US$ 23 billion in 1,950 transactions across 31 countries. It has an experienced team of 185 employees in five offices in four countries. In 2019, CarVal Investors became an employee-owned firm.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Business integration of both UGML and UVSL

UGML is engaged in manufacturing of Hot Metal, pig iron and coke. It has capacity to manufacture sinter and coke oven gas along with blast furnace. It also has 18 MW power plant at the premises to meet the power requirements. It supplies hot metal and coke oven gas to UVSL for re-heating of slabs before rolling for HR Coils.

UVSL procures hot metal and coke oven gas from UGML and manufactures Hot rolled coils, cold rolled coils and galvanised sheets. UVSL has two electric arc furnaces with a capacity of 1.08 MTPA to produce slabs for the rolling of HRC in the rolling mill

UVSL also manufactures pig iron which is sold on the open market to foundries as they pay premium for pig iron. The manufacturing facilities are located strategically in close proximity to major customer markets in Maharashtra and central & western parts of the country. Similarly, the major raw material (i.e. iron ore) is located in close proximity.

Integrated plant and proximity to iron ore mines in and around Nagpur region

The Group has an integrated manufacturing facility (both UGML and UVSL) based at a single location in Wardha around 70 kms from Nagpur, Maharashtra. The company does not have any captive mines. The company has a sintering facility and operates a blast furnace for which iron ore is sourced from the nearby mines from Nagpur. Since the company 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. The company also has a captive power plant for which thermal coal requirement is sourced from the local markets. The captive plant can meet the groups requirement, ensuring uninterrupted power supply which is lower than the grid cost.

Turnaround measures leading to higher profitability margins

Since takeover of operational and management control by the new promoters they have focused on increasing the overall profitability as well as maintaining sufficient working capital in the system. The major turnaround contributors were plugging leakages in operations largely on sales of coils and by-products as well as purchase of operational items, bringing in technical expertise and productivity enhancement through debottlenecking, improvement in process throughputs, it also built sufficient working capital in the system for smooth operations. These measures and market improvement had lead the group to register higher income as well as higher profitability margins. PBILDT margins increase from 1.07% in FY20 to 13.32% in FY21 and 26.76% in H1FY22.

Comfortable Capital Structure

With takeover by new management of Nithia & CarVal, the capital structure of the group is comfortable with decline in debt levels when compared to that of FY20. The debt profile (combined) consists of Rs.625 crore of NCDs issued to CarVal and Rs.1,200 crore of NCDs issued to the existing lenders (Rs.200 crore prepayments have been made as on March 31, 2021). Overall gearing as on March 31, 2021 remained comfortable at 0.36x. Interest coverage also remains comfortable at 4.88x for FY21.The group's overall gearing is expected to remain comfortable in future years as it plans to prepay the NCD's as well as loan from CarVal, thus leading to overall decline in total debt and improving of overall gearing.

Key Rating Weaknesses

Cyclicality inherent in 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 inordinate 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 essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Liquidity: Strong: The Uttam group since the takeover by the consortium of Nithia and CarVal has accumulated positive cash balance. It had cash and cash equivalents of Rs.560 crore as on September 30, 2021. The group has no repayments scheduled in FY22, and it plans to prepay part of the NCDs. Also, there are no major capex plans for which any additional lending is required, any capex shall be incurred through internal accruals only.

Analytical approach: Combined

CARE has adopted the combined approach, since both the entities are closely held having common ownership, they exhibit cash-flow fungibility, one entity is strategically important to the other companies' business activity as they operate in similar line of business.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's policy on default recognition
Rating Methodology - Consolidation
Rating Methodology – Manufacturing Companies

[Rating Methodology - Steel](#)
[Financial ratios – Non-financial sector](#)
[Liquidity analysis of Non-financial Sector Entities](#)

About the group

Both UGML and UVSL were earlier promoted by the Miglani group. UGML is engaged in the manufacturing of Hot Metal/Pig Iron from iron ore, which are intermediate products for manufacturing of value added steel. Whereas, UVSL was set up as a rolling mill with an installed capacity of 1.00 Million Tonnes Per Annum (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 (0.38 MTPA capacity) and Galvanized Plain (GP)/Galvanized Corrugated (GC) sheets/coil line (0.25 MTPA capacity). Both UGML and UVSL were referred to National Company Law Tribunal (NCLT) for Corporate Insolvency and Resolution Process (CIRP) under Insolvency and Bankruptcy Code (IBC) on June 26, 2018 as both the entities had taken huge borrowings from consortium of Banks led by State Bank of India (SBI) and were unable to service the debt obligations.

After rounds of bidding process for liquidation of both the entities, the lenders had received bids from several applicants such as the winning consortium of Nithia Capital (Nithia) & CarVal Investors and SSG. The process of liquidation went on for more than a year and on May 06, 2020 the NCLT approved resolution plan and voted in favour of the consortium of Nithia and CarVal with a bid of Rs. 1,825 crore.

Combined financials of UGML and UVSL

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (P)
Total operating income	2,088.07	2,467.45	2,869.95
PBILDT	22.39	328.76	768.13
PAT	-691.55	5,899.95	519.54
Overall gearing (times)	NM	0.36	0.31
Interest coverage (times)	NM	4.88	6.41

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-BG/LC	-	-	-	-	75.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT-BG/LC	LT	75.00	CARE A; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities - NA

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

Sr. No	Name of instrument	Complexity level
1	Non-fund based facilities	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 has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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