Dina Iron & Steel Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	36.98 (Enhanced from 29.08)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Facilities	36.98 (Rs. Thirty-Six Crore and Ninety-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Dina Iron & Steel Limited (DISL) continues to remain constrained by its small scale of operation, profitability being susceptible to volatility in the prices of raw materials, moderate financial risk profile, project implementation risk and cyclical nature of the steel industry. The rating, however, derives strength from the long-standing experience of the promoters, royalty-based agreement with its principal Kamdhenu Mettallic Industries Ltd (KMIL) and partially integrated operations.

Rating Sensitivities

Positive Factors

- Growth in scale of operations as marked by total operating income of above Rs.270 cr on sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 4.00% and 1.50% respectively on sustained basis.

Negative Factors

- Deterioration in the capital structure as marked by overall gearing ratio above 2.50x on a sustained basis
- Decline in coverage indicators as marked by interest coverage ratio below 1.50x and total debt to GCA of above 20.00x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operation

DISL is a relatively small player, with an installed capacity of 67,200 MTPA each for Mild Steels Billets and TMT Bars/Wires in comparison to other players operating in this industry. The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the company in times of stress; however the company is under the process to enhance its rolling mill capacity to 105,000 MTPA which is expected to increase the scale of operations.

Profitability susceptible to volatility in raw material prices

The basic raw material for DISL is sponge iron, the prices of which are volatile in nature. The raw-material consumption accounted for roughly ~76% of total cost of sales in FY20. Accordingly, the profitability of DISL is susceptible to volatility in the prices of its raw materials as it is one of the major cost drivers of the company. Apart from raw material, power is another major cost and the company procures power from Bihar State Electricity Board.

Financial risk profile marked by moderate financial performance in FY20 and Q1FY21 and moderate debt coverage indicators

TOI of DISL witnessed a y-o-y decline of ~25% in FY20 primarily driven by lower sales realizations of the finished goods due to subdued demand coupled with decrease in sales volume of TMT bars and MS Wire Rods. Despite lower sales, the PBILDT margin remained stable in FY20 due to better margins earned by the company in Q4FY20. The interest coverage ratio continued to remain satisfactory at ~1.67x in FY20 vis-à-vis ~1.80x in FY19. While TD/GCA deteriorated from 17.55x as on

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

Mar'19 to 23.79x as on Mar' 20, overall gearing was stable. TD/GCA deteriorated mainly on account of lower sales resulting into lower cash accruals.

DISL reported TOI of Rs 35.95 cr in Q1FY21.The production was closed for about 35 days on account of the lockdown and wide spread Covid 19. This led to the lower sales volumes in the Q1FY21. However, PBILDT and PAT margin in Q1FY21 improved vis–a-vis Q1FY20 on account of higher sales realization in the month of May and June '20.

Project implementation risk

The company is in the process of enhancing its rolling mill capacity from 67,200 MTPA to 105,000 MTPA. The project cost of ~Rs.7.33 crore is proposed to be funded out of term debt of Rs.3.76crore and rest out of internal accruals. The company has already spent around Rs. 5.94 crore till Aug 31, 2020 with expected COD in Q4FY21. Hence, the ability of the company to commence its enhanced capacity and generate the envisaged benefits therefrom shall remain a rating sensitivity.

Cyclicality associated with 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 inordinate delays in the completion impact the responsiveness of supply side to demand movements. Furthermore, the producers of finished steel & related products like DISL are essentially price-takers in the market (i.e. their fortune depends upon the construction industry), which directly expose their cash flows and profitability to the volatility of the end user industry.

Key Rating Strengths

Experienced promoters with satisfactory track record of operations

DISL is managed by Mr. Sanjay Kumar Bhartiya (Promoter) with adequate support from Mr. Prashant Kumar Bhartiya, (Director and brother of Mr. Sanjay Kumar Bhartiya). The company started its operation in 1999 and accordingly has a track record of more than two decades.

Strong association with the principal and sole manufacturer of Kay2 Bars & Wires

DISL has been associated with Kamdhenu group since 2014. The company has entered into a royalty based agreement and is the sole manufacturer of Kay2 thermo-mechanically treated (TMT) bars/ rods and wires for the state of Bihar and has since then been continuously focusing on capturing the market.

Partially integrated operation and moderate Capacity Utilization (CU)

DISL has a partial integrated method for manufacturing of TMT bars and wire rods by captive manufacturing of billets rather than procuring it from market leading to reduction of operating cost and increase its profitability. The capacity utilization (CU) though declined, has remained moderate at ~73% in FY20.

Industry outlook

CARE expects domestic steel demand to recover only post monsoon led by improvement in infrastructure activities and expectation of increase in automobiles production. Demand from construction sector is expected to take longer to recover. As the lockdown measures would continue to relax further in coming months, steel production would also pick-up although demand may not witness a similar corresponding rise due to the seasonally weak September quarter. This is likely to keep steel prices in check at least till the September 2020 quarter. Domestic steel production which had fallen to record low levels in April 2020 due to the Covid-19 induced nation-wide lockdown has shown a 'V-shaped' recovery since then, with the gradual reopening of the economy.

Liquidity: Adequate

The cash accrual was Rs.1.69 cr in FY20 as against repayment obligations of Rs. 0.86 cr in FY20. Average utilization of working capital bank facilities remained moderate at ~73% during the past 12-months ended Aug'20. DISL has not opted for any moratorium of bank facilities, however, it has availed the emergency Covid 19 relief fund of Rs 2.65 cr in lines with the RBI guidelines. Further in the month of August 20, it has been sanctioned an additional working capital term loan of Rs 5.30 cr as a part of MSME scheme. It has a repayment obligation of Rs. 1.52 cr in FY21 and cash accruals coupled with cash balance are expected to be sufficient to meet the same.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook & Credit watch to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Dina Iron & Steel Ltd. (DISL), promoted by Bhartiya family of Patna, was incorporated in July 1992 as JM Dina Ispat Ltd. (JMDIL) to set up a manufacturing unit for iron and steel products. In September 1993, JMDIL was rechristened as Dina Iron & Steel Limited. However, the business remained dormant for about seven years and the commercial operations commenced from 1999. The company has setup its manufacturing facility at Didarganj in Patna with present installed capacity of 67,200 MTPA of Billets and 67,200 MTPA for Mild Steel (MS) Wire Rods and TMT Bar (expansion plan for 105,000 MTPA is under process). DISL uses billets mainly for captive purpose for manufacturing of TMT bars and wires. The day-to-day affairs of the company are looked after by Mr. Sanjay Kumar Bhartiya with adequate support from his brother Mr. Prashant Kumar Bhartiya (Director), and a team of experienced professionals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	239.75	179.85
PBILDT	6.03	5.16
PAT	1.16	0.92
Overall gearing (times)	2.01	2.08
Interest coverage (times)	1.80	1.67

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Annexure-3

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	April '25	10.48	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	1.50	CARE BB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Aug-19)	1)CARE BB+; Stable (28-Nov-18)	1)CARE BB; Stable (19-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
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2.	Fund-based - LT-Term Loan	LT	10.48	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Aug-19)	1)CARE BB+; Stable (28-Nov-18)	1)CARE BB; Stable (19-Sep-17)
3.	Fund-based - LT-Cash Credit	LT	1.50	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Aug-19)	1)CARE BB+; Stable (28-Nov-18)	1)CARE BB; Stable (19-Sep-17)

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

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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