# MSP Steel & Power Limited

**October 09, 2019**

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 538.14 | **CARE BB+; Stable (Double B Plus; Outlook: Stable)** | **Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** |
| Short-term Bank Facilities | 117.00 | **CARE A4+ (A Four Plus)** | **Revised from CARE A3 (A Three)** |
| **Total** | **655.14 (Rs. Six Hundred Fifty-Five Crore and Fourteen Lakhs only)** | | |

** Details of instrument/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The revision in the rating assigned to the bank facilities of MSP Steel & Power Limited (MSPL) take into account the significant deterioration in the financial performance of MSPL in Q1FY20 ensuing stressed liquidity position. The rating is further constrained by the exposure to volatility in the prices of raw materials and finished goods coupled with cyclicality in the steel industry amidst intense competition.*

*The rating, however derives comfort from experience of the promoters, semi-integrated nature of operations, improvement in the capacity utilization with satisfactory financial performance during FY19 (refers to the period April 1 to March 31) and moderate debt coverage indicators.*

*Ability of the company to improve its profitability and effectively manage its working capital are the key rating sensitivities.*

**Detailed description of the key rating drivers**

**Key Rating Weakness**

***Significant deterioration in financial performance during Q1FY20 marked by low cash accruals***

The total operating income though witnessed a q-o-q (yearly) growth of ~8% in Q1FY20; operating profit and margins of the company were adversely affected [Rs.25.5 crore (6.32% margin) in Q1FY20 vis-à-vis Rs.36.7 crore (9.86% margin) in Q1FY19] due to lower realizations incidental to subdued steel demand across the user industry. Accordingly MSPL reported loss of Rs.24.81 crore in Q1FY20 vis-à-vis profit of Rs.3.87 crore in Q1FY19. MSPL had debt repayment of Rs.9.43 crore as against gross cash accruals (GCA) of Rs. 7.97 crore in Q1FY19. Going forward the sales realizations is expected to remain under pressure which in turn would adversely affect the profitability and liquidity parameters of the company.

***Exposure to volatility in prices of inputs & finished goods:***

Raw material consumption is the single largest cost component for MSPL (constituting about 76-83% of total cost of sales during FY17-FY19). The company does not have integration for its basic raw materials like iron ore & coal and has to procure the same from open market. The company procures iron ore from mines in Orissa and Jharkhand and coal through e-auctions and from traders. Though the prices of finished goods move in tandem with raw material prices, there is a time lag. Since the raw material is the major cost driver and the prices of the same are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices.

***Cyclicality in the steel industry with intense competition from the unorganized sector:***

The Indian secondary steel industry is characterized by high degree of fragmentation due to the presence of large numbers of unorganized players and also exhibits cyclicality. MSPL markets its produce mainly in eastern India, which is a hub of steel plants, on account of proximity to the mineral rich states of Orissa and Chhattisgarh. 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. Further, the infrastructure and housing industry is the major end user of steel products. Going forward the profitability of the company remains susceptible to the performance of the said user industry(s).

**Key Rating Strengths**

***Semi-Integrated nature of operations****:*

MSPL is a semi-integrated player having manufacturing facilities of both intermediate products like sponge iron, billets and value added end products like TMT bars & structural. MSPL needs uninterrupted supply of power which is augmented by its 76MW Captive Power Plant (24MW from waste heat recovery plant and 52MW from thermal power plant). MSPL also has its own railway siding of ~2.4 km at Jamgaon, Raigarh, outside its plant ensuring allocation of railway rakes from loading points on priority basis.

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

***Satisfactory financial performance in FY19:***
The Total Operating Income (TOI) of MSPL registered a y-o-y growth of 44.85% during FY19 to Rs.1671.18 crore primarily on account of better sales realization across the entire product segment. PBILDT margin however moderated to 7.88% in FY19 vis-à-vis 10.25% in FY18 mainly due to increased provisioning for expected credit losses on receivables. The reported loss of the company reduced to Rs.20.6 crore in FY19 as against Rs.55.71 crore in FY18. Gross Cash Accruals (adjusted with interest liability on OCDs) improved and remained comfortable at Rs.70.28 crore in FY19 (Rs.0.28 crore in FY18) vis-à-vis debt repayment obligation of Rs.35.21 crore in FY19. However the profitability and cash accruals started to moderate since Q4FY19 wherein the company had reported loss of Rs.32.35 crore in Q4FY19 as against profit of Rs.8.4 crore in Q3FY19 and loss of Rs.20.6crore for the entire fiscal (FY19).

***Moderate debt coverage indicators:***
The overall gearing ratio of the company continues to remain moderate with improved from 0.61x as on March 31, 2018 to 0.56x as on March 31, 2019 due to repayment of term debt and increased net-worth. The increase in net-worth is due to accretion of profits to reserve and conversion of part of unsustainable debt (Rs.128.6 crore) to equity and part to Optionally Convertible Debentures (Rs.472.5 Crore) which are repayable after repayment of sustainable portion of term loans being considered as quasi equity. The interest on such debt is also not payable till repayment of sustainable debt. The coverage indicators of the company have improved post restructuring with reduction in interest burden and improvement in the profitability in FY19.

**Liquidity position: Stretched**
The liquidity position of MSPL is stressed on account of low cash accruals vis-à-vis the debt repayment obligation in the last two quarters (i.e. Q4FY19 & Q1FY20) coupled with high utilization of the fund based limits with maximum utilization stretching beyond 95% and non-fund based utilization ranging around 90%-97% in the past 12 months ending June 2019. Moreover, the company has provisioned for expected credit loss/ de-recognized financial assets (Trade Receivables/Advances/Loan) to the tune of Rs.43.14 crore in FY19 and has around 14% of the debtors outstanding for more than 3 years as on March 31, 2019 pressurizing the liquidity further.

**Analytical approach:** Standalone.

**Applicable Criteria**
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector

**About the Company**
MSP Steel & Power Ltd. (MSPL) is the flagship company of the MSP group which is over a decade old business house belonging to Agrawal family of Kolkata. MSPL is an integrated steel player, engaged in the manufacturing of sponge iron, MS ingot and rolled products (TMT and structural products). The company has Sponge Iron (DRI) unit, induction furnace for MS billets, rolling mill for TMT Bars and structural mill for structural products at Raigarh, Chhattisgarh. Apart from this, for having backward integration, the company has iron ore beneficiation plant, pellet plant, coal washery, captive power plant and railway siding of 2.4 km. Besides, the company is also involved in manufacturing fly ash bricks (48,600 tpa).

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---:|---:|
| Total operating income | 1162.17 | 1671.18 |
| PBILDT | 119.14 | 131.75 |
| PAT | -55.71 | -20.60 |
| Overall gearing (times) | 0.61 | 0.56 |
| Interest coverage (times) | 0.92 | 1.67 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable.

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

**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-Term Loan | - | - | March 2025 | 277.64 | CARE BB+; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 260.00 | CARE BB+; Stable |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 7.00 | CARE A4+ |
| Non-fund-based - ST-Letter of credit | - | - | - | 110.00 | CARE A4+ |
| Fund-based - LT-Proposed fund based limits | - | - | - | 0.50 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | 277.64 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (22-Feb-19) | - | - |
| 2. | Fund-based - LT-Cash Credit | LT | 260.00 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (22-Feb-19) | - | - |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 7.00 | CARE A4+ | - | 1)CARE A3 (22-Feb-19) | - | - |
| 4. | Non-fund-based - ST-Letter of credit | ST | 110.00 | CARE A4+ | - | 1)CARE A3 (22-Feb-19) | - | - |
| 5. | Fund-based - LT-Proposed fund based limits | LT | 0.50 | CARE BB+; Stable | - | 1)CARE BBB-; Stable (22-Feb-19) | - | - |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

## Contact us

**Media Contact**
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Group Head Name: Mr. Abhishek Khemka
Group Head Contact no. +91 (0)33-40181610
Group Head Email id: abhishek.khemka@careratings.com

**Relationship Contact**
Name: Lalit Sikaria
Contact no. :+91 (0)33-40181607
Email ID: lalit.sikaria@careratings.com

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