

Magnum Steels Limited

February 15, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	20.00	CARE B; Stable ISSUER NOT COOPERATING* (Single B; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Based on the best available information
Total	20.00 (Rupees Twenty crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

CARE has been seeking information from Magnum Steels Limited (MSL) to monitor the ratings vide e-mail communications/letters dated February 2, 2019, January 21, 2019, January 17, 2019 etc. numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on MSL's facilities will now be denoted as **CARE B; Stable; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings assigned to the bank facilities of Magnum Steels Limited are primarily constrained due to project implementation and stabilization risk associated with proposed debt funded capex, small scale of operations and thin profit margins and moderate debt coverage indicators and weak liquidity position. The ratings are further constrained due to fragmented nature of industry with high degree of competition and susceptibility of profit margins to volatility associated with raw material prices. The ratings, however, draw comfort from wide experience of promoters and comfortable capital structure.

Detailed description of the key rating drivers

At the time of last rating on May 29, 2018, the following were the rating weaknesses and strengths.

(Updated for the information available from Registrar of Companies)

Key Rating Weaknesses

Project implementation and stabilization risk associated with proposed debt funded capex

MSL is planning to execute an expansion project for manufacturing Thermo Mechanically Treated (TMT) bars with proposed total project cost of Rs.30 crore. Till February 07, 2018, the company has not incurred any cost towards the project, while the commercial production is expected to commence from October, 2018. In light of majority of costs to be incurred, MSL is exposed to project implementation and stabilization risk.

Small scale of operations and thin profit margins

The total operating income (TOI) of MSL increased significantly during FY18 and remained moderate at Rs.41.07crore as against Rs.17.23 crore during FY17. Further, MSL reported reduced operating profit of Rs. 0.51 crore in FY18 as against operating profits of Rs. 0.82 crore in FY17. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

Moderate debt coverage indicators and weak liquidity position

The debt coverage indicators of MSL remained moderate marked by total debt to GCA of 1.33 times as on March 31, 2018, while the interest coverage remained moderate at 6.86x during FY18 owing to operating profits. Furthermore, liquidity position of the company remained stretched marked by highly elongated working capital cycle of 564 days in FY18 as against 956 days in FY17, owing to improvement in collection period and creditor days.

Fragmented nature of industry with high degree of competition

MSL is in to manufacturing of bars, plates, Sponge iron which is a highly fragmented and unorganized market for steel products with presence of large number of small sized players. The high fragmentation restricts the pricing flexibility and

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

*Issuer did not cooperate; Based on best available information

bargaining power of players like MSL. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

Susceptibility of profit margins to volatility associated with raw material prices

The steel industry is cyclical with prices driven by demand and supply conditions in the market. The prices are driven primarily by the existing demand and supply conditions with strong linkage to the global market. This results into risk of price fluctuations on the inventory of raw materials as well as finished goods.

Key Rating Strengths

Wide experience of promoters

Mr. I. C. Jindal and Mr. Jai Bhagwan are the key promoters having an experience of over three decades and seven years respectively, in steel industry. They jointly manage the overall operations of the company.

Comfortable capital structure

The capital structure of MSL stood comfortable marked by an overall gearing ratio of 0.01 times as on March 31, 2018 as against 0.11 times as on March 31, 2017. The tangible net worth stood high at Rs.114.15 crore as on March 31, 2018.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on Non-Cooperation by the Issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

Delhi-based MSL is a closely held public limited company and was incorporated in January, 1991. MSL is managed by Mr.I.C.Jindal, Mr. Mukesh Kumar Singhal and Mr. Jai Bhagwan. MSL is engaged into manufacturing of TMT bars, Spring steel flats, steel castings DRI Sponge etc. The products manufactured by MSL find application in construction industry, automobile industry and other heavy engineering industries.

(In crores)

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	17.23	41.07
PBILDT	-3.89	1.24
PAT	0.82	0.51
Overall gearing (times)	0.01	0.01
Interest coverage (times)	NM	6.86

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum

of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the company at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	14.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	14.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE B; Stable (29-May-18)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE B; Stable (29-May-18)	-	-	-

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