

Magnum Steels Limited

May 14, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long- term Bank Facilities	20.00	CARE B-; stable; ISSUER NOT COOPERATING* (Single B minus ; Outlook-Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE B; Stable ISSUER NOT COOPERATING* Based on best available information
Total	20.00 (Rs. twenty Crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated February 15, 2019, placed the rating(s) of Magnum Steels Limited (MSL) under the 'issuer non-cooperating' category as MSL had failed to provide information for monitoring of the rating. MSL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated April 10, 2020, April 07, 2020. 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.

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

The rating has been revised taking into account non-availability of information due to non-cooperation by MSL with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk. 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 February 15, 2019, the following were the rating strengths and weaknesses:

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 decreased significantly during FY19 and remained moderate at Rs.8.22crore as against Rs.41.07 crore during FY18. Further, MSL reported reduced operating profit of Rs. 0.04 crore in FY19 as against operating profits of Rs. 0.51 crore in FY18. 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 5.23 times as on March 31, 2019, while the interest coverage remained moderate at 3.16x during FY19 owing to operating profits. Furthermore, liquidity position of the company remained stretched marked by highly elongated working capital cycle of 364 days in FY19 as against 564 days in FY18, 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

¹Complete 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 0.03 times as on March 31, 2019 as against 0.01 times as on March 31, 2019. The tangible net worth stood high at Rs.114.19 crore as on March 31, 2019.

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' 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 MGL is a closely held public limited company and was incorporated in January, 1991. MGL is managed by Mr I.C.Jindal, Mr. Mukesh Kumar Singhal and Mr. Jai Bhagwan. SMPL is engaged into manufacturing of TMT bars, Spring steel flats, steel castings DRI Sponge etc. with an installed capacity of 100 tonnes per day of Thermo Mechanically Treated (TMT bars) and 150 tonnes per day of Spring steel flats as on March 31, 2017. The products manufactured by MGL find application in construction industry, automobile industry and other heavy engineering industries. The company caters to its customers spread over Uttar Pradesh, Madhya Pradesh, Chattisgarh, Rajasthan etc. The group entities of SMPL; namely Deluxe Alloys Pvt. Ltd, Magnum Iron & Steel Pvt Ltd, N. R. Sponge Pvt Ltd, I.R.S. Industries Pvt Ltd and B.R. Associates Pvt Ltd are into similar line of business.

		(Rs. Crore)	
Brief Financials (Rs. crore)		FY18 (A)	FY19 (A)
Total operating income		41.07	8.22
PBILDT		1.24	0.86
PAT		0.51	0.04
Overall gearing (times)		0.01	0.03
Interest coverage (times)		6.86	3.16

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	-	-	-	14.00	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable; ISSUER NOT COOPERATING* on the basis of 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 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-Term Loan	LT	14.00	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (15-Feb-19) 2)CARE B; Stable (29-May-18)	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (15-Feb-19) 2)CARE B; Stable (29-May-18)	-

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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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.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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