Mahamaya Steel Industries Limited

February 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	30.00	CARE BB+; Stable (Double B plus; Outlook: Stable)	Assigned
Total Facilities	**30.00 (Rs. Thirty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) are primarily tempered by Weak financial performance over the past years albeit marginal improvement in FY17 (refers to the period April 1 to March 31), working capital intensive nature of business, low capacity utilization, partial exposure to volatility in prices of raw-material and cyclicality in the steel industry with intense competition from the unorganised sector.

The ratings however, derive strength from the Long track record of the company and experienced promoters, regular infusion of funds by promoters to support the business and strong clientele

The ability of the company to increase scale of operations, improve profitability and capital structure and effectively manage working capital would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Partial exposure to volatility in prices of raw-material: The group lacks long term raw material sourcing arrangements and procures the same locally on spot prices. Accordingly, upward movement in raw material price or the power rates with the group's inability to pass on such increases in view of high competition in the operating spectrum or economic movements having negative impact on the steel industry may impact the profitability of the group.

Low capacity utilization: The capacity utilization (CU) of the Mahamaya group remained low over the past years. The CU of the rolling mills and melting shop remained low in the range of 30%-40% and 35%-50% respectively in the past years.

Weak financial performance over the past years albeit marginal improvement in FY17: The Mahamaya group's total operating income (TOI) remained erratic over the past three years. The PBILDT margin also remained erratic during the past period. Further, low capacity utilisations over the past years also restricted the operating margin of the group. In FY16, the Mahamaya group witnessed operating loss due to step decline in inventory valuations owing to deteriorated steel industry scenario along with decline in sales realisation. Such deterioration in the industry scenarios with high interest expenses led to cash loss for the Mahamaya group in FY16. However, with improvement in the steel prices backed by government initiatives the group posted operating profit in FY17.

Working capital intensive nature of business: The operation of the group is working capital intensive in nature as the group holds inventory of about 2-3 months and provide a credit period of about a month to its customers on the other hand procures raw materials mostly on cash basis or avail a credit period of 10-15 days.

Cyclicality in the steel industry with intense competition from the unorganised sector: The Indian secondary steel industry is characterised by high degree of fragmentation due to the presence of large numbers of unorganised players. Steel is a highly capital intensive industry and cyclic in nature. Its growth in intertwined with the growth of the economy at large, and in particular the steel consuming industries such as automobile, housing, infrastructure and others. Further, the infrastructure and housing industry is the major end user of steel products. The focus of the government on

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

infrastructure development and efforts taken to re-start the stalled projects is expected to provide some tailwind for the industry. This will also result in increased demand for products of group.

Key Rating Strength

Long track record of the company and experienced promoters: MSIL, incorporated in 1988, was promoted by Shri Ramanand Agarwal, have experience of over 45 years in the iron and steel industry. His son Shri Rajesh Agarwal, also a graduate in commerce, is the Managing Director and CEO of the group with an experience of over 20 years.

Regular infusion of funds by promoters to support the business: The promoters have demonstrated continuous financial support to the group companies by continuous infusion of funds in the form of unsecured loans in order to meet working capital requirements over FY15-FY17. Over the last three years (FY15-FY17), the promoters have infused Rs.6.14 crore in the group as unsecured loan.

Strong clientele: MSIL is an approved vendor for a number of reputed public sector undertakings. Association of public enterprises reduces the counter party risk to an extent.

Analytical approach: Combined

For arriving at the ratings, CARE has combined the financials of MSIL and Abhishek Steel Industries Limited (ASIL) as they share a common management and have operational and financial linkages.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company

MSIL was incorporated in May 1998 as a private limited and reconstituted as a public limited company in August 1990. The company, manufactures heavy and light steel structures such as strips, joists, beams, channels, girders, and railway sleeper bars in various ranges for the construction, automobile, railway, and power industries. The company has its structural steel unit and steel melting shop, with an installed capacity of 2,55,000 tonnes per annum(tpa) and 1,89,500 tpa, respectively, at Raipur (Chhattisgarh). It has set up an oxygen gas plant with installed capacity of 9,00,000 cubic meters for captive consumption.

Brief Financials- Standalone (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	311.23	254.72
PBILDT	3.00	15.01
PAT	(15.25)	3.32
Overall gearing (times)	1.34	1.21
Interest coverage (times)	0.31	1.56

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

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.

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	-	-	-	30.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB+; Stable				

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