Mahamaya Steel Industries Limited

September 30, 2020

Ratings

Facilities*	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	48.71 (Reduced from 56.73)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	20.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)	Reaffirmed
Total Facilities	68.71 (Rs. Sixty-Eight Crore and Seventy-One Lakhs Only)		

**Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) continues to draw strength from long track record of the company and experienced promoters, strategic location of the plant, moderate financial performance of the company during FY20 (refers to the period from April 1 to March 31) and moderate debt coverage indicators.

The ratings are however, constrained by client concentration risk, high exposures to group companies, low capacity utilization, profitability susceptible to volatility in input cost and cyclicality in the steel industry amidst intense competition. The rating also takes into consideration the deterioration in the financial performance of MSIL during Q1FY21 and the possible impact of Covid-19 pandemic on the business operation and liquidity position of the company.

Key Rating Sensitivities

Positive Factors

- The ability of the company to increase its scale of operation with improvement in its operating margin beyond 8% on a sustained basis
- Reduction in overall gearing below 1x on a sustained basis

Negative Factors

- Deterioration in the financial performance in the ensuing quarters coupled with moderation in the overall gearing ratio and debt coverage indicators beyond current levels (FY20)

Detailed description of key rating drivers

Key Rating Strengths

Long track record of the company and experienced promoters

MSIL incorporated in 1988, was promoted by Raipur based Mr. Ramanand Agarwal. Mr. Agarwal has more than four decades of experience in the iron and steel industry. Currently, the day to day affairs of the company is looked after by Mr. Rajesh Agrawal (Son of Mr. Ramanand Agrawal) along with the support from a team of experienced professionals.

Strategic location of the plant

The manufacturing facilities of MSIL enjoys logistical advantage due to their strategic location in Raipur, Chhattisgarh with availability of raw material like sponge iron, steel scrap and well connectivity to road/ rail leading to cost effectiveness.

Moderate financial performance in FY20, albeit deterioration in Q1FY21

The Total Operating Income (TOI) of the company registered a y-o-y de-growth of ~23% during FY20 at Rs.358.38 crore. The decrease in top line was mainly on account of moderation in the average sales realization during the said period.

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

Consequently, the company reported lower PBILDT margin of 4.58% (Rs.16.40 crore) during FY20 as against 5.29% (Rs.24.74 crore) during FY20. Further, PAT level also dipped from Rs.6.10 crore in FY19 to Rs.3.25 crore in FY20 registering a PAT margin of 0.91% in FY20 (1.31% in FY19). However, MSIL earned GCA of Rs.5.86 crore (Rs.12.06 crore in FY19) which remained satisfactory as against debt repayment obligation of Rs.3.73 crore in FY20 (including Rs.2.2 crore as redemption of preference shares).
In Q1FY21, MSIL reported net cash loss of Rs.1.39 crore on a TOI of Rs.27.75 crore which is attributable to COVID-19 induced stringent and intermittent complete/partial lockdown during the said period. Lockdown led to complete closure of operations during early part of quarter coupled with decline in demand from user industries attributable to overall weak macroeconomic environment.

Moderate debt coverage indicators
Capital Structure continued to remain moderate with improvement in the overall gearing ratio from 1.78 times as on March 31, 2019 to 1.39 times as on March 31, 2020. The improvement in overall gearing is on the back of gradual repayment of term debt, reduced LC backed creditors and gradual accretion of profit to reserve. TD/GCA however declined to 17.27 times as on March 31, 2020 as against 10.24 times as on March 31, 2019 on account of decline in GCA during FY20

Key Rating Weaknesses
Low capacity utilization
The capacity utilization of the rolling mill and melting shop (MSIL) continued to remain low at 43% and 53% respectively in FY20.

Client concentration risk
The company continues to have high customer concentration with top 10 customers contributing ~40% of the total revenues in FY20 (as against ~38% in FY19).

High Exposure to group companies
The company has significant exposure to its group companies in the form of investments, loans and advances to its group companies amounting to Rs.31.96 crore as on March 31, 2020 (accounting for nearly 43.91% of the net worth as on March 31, 2020 as against 50% of the net worth as on March 2019). The company procures a major portion of its sponge iron requirement from its group/ associate companies and also sells the finished goods i.e. blooms/billets to its associate concern Abhishek Steel Industries Limited (ASIL). After adjusting for exposure to group companies, adjusted overall gearing works out to be 1.15x as on March 31, 2020 (3.57x as on March 31, 2019).

Partial exposure to volatility in the prices of raw material
Raw material (sponge iron/scrap) is the major cost driver constituting about 70% of the cost of sales in FY20. The prices of its raw materials are highly volatile in nature and any upward movement in the prices of the raw material without any corresponding movement in the finished goods prices may adversely affect the profitability of the company.

Cyclicality associated with the steel sector characterized by intense competition
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. It is also characterized by high degree of fragmentation due to the presence of numerous unorganized players. 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.

Outlook on the industry
After falling to a record low of 3.1 million tonnes (mt) in April 2020, India's crude steel and finished steel production have shown gradual m-o-m improvement in each of the months during May-August 2020. Production of crude steel and finished steel increased by 5.1% and 6.7%, respectively in August 2020 compared to July 2020. Domestic steel players have been ramping up capacities with easing of lockdown measures and pick-up in demand. However, as compared to August 2019, production of crude steel and finished steel were lower by 4.2% and 5.5%, respectively in

August 2020 but the y-o-y fall has been lower when compared with the previous month. Consumption of finished steel in August 2020 registered an increase of 7.7% on m-o-m basis but was lower by 18.4% over August 2019. India's finished steel exports jumped 172% in June 2020 compared to February 2020 (pre-COVID) mainly due to increased exports to China, notwithstanding the on-going trade tensions between the two countries. However, exports which had peaked in June 2020 started to slide sequentially from July onwards. Exports have been lower sequentially in July and August 2020 declining by 24.5% in August 2020 as compared to July 2020.

Liquidity Analysis: Adequate

Adequate liquidity is characterized by average working capital utilization of ~76% during 12 months ending July 31, 2020 indicating average unutilized working capital limits of Rs.11.04 crore. The company had cash and cash equivalents of Rs.3.06 crore as on March 31, 2020 (Rs.4.39 crore as on March 31, 2019) backed by strong debtors' realization during Q1FY21. MSIL is estimated to have sufficient cushion and generate adequate GCA to repay its debt repayment obligation for FY21 (including redemption of preference share capital and repayment of COVID-19 loan). The company had availed moratorium on debt servicing with respect to interest on CC and principal repayment of term loan (till August 2020) under Reserve Bank of India's COVID-19 regulatory package which has now been serviced. MSIL has also availed a COVID-19 Relief Loan of Rs.5.29 crore

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
Complexity level of rated instrument
Liquidity analysis for non-financial sector entities
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Criteria for Short term Instruments

About the Company

Mahamaya Steel Industries Limited (MSIL) was incorporated in 1988, by Mr. Ramanand Agrawal as the flagship company of the Raipur-based Mahamaya Group. MSIL has production facilities for billets/blooms and structural steel products with annual production capacities of 205,000 metric tonne (MT) and 174,250 MT, respectively. This apart the company has a gas plant with an annual production capacity of 900,000 cubic metre (CuM). The company manufactures heavy and light steel structural products such as joists, angles, beams, channels etc. The products are sold under the brand name "MAHAMAYA". The day to day affairs of the company is looked after by Mr. Rajesh Agrawal along with the support from a team of experienced professionals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	467.29	358.38
PBILDT	24.74	16.40
PAT	6.10	3.25
Overall gearing (times)	1.78	1.39
Interest coverage (times)	2.21	1.81

A: Audited

Status of non-cooperation with previous CRA: ICRA has placed the rating at ICRA B+, Stable/A4 Issuer Not Co-operating vide press release dated September 16, 2020.

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-Cash Credit	-	-	-	46.00	CARE BBB-; Stable
Term Loan-Long Term	-	-	-	2.71	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE BBB-; Stable / CARE A3

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	46.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)	1)CARE BB+; Stable (27-Feb-18) 2)CARE BB+; Stable (08-Feb-18)
2.	Term Loan-Long Term	LT	2.71	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)	1)CARE BB+; Stable (27-Feb-18)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (27-Dec-19)	1)CARE A3 (19-Dec-18)	1)CARE A4+ (27-Feb-18)

Annexure-3: Complexity

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Term Loan-Long Term	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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About CARE Ratings:

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