

Mahamaya Steel Industries Limited

December 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	41.92 (reduced from 44)	CARE BBB-, Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+, Stable (Double B Plus; Outlook: Stable)
Short-term Bank Facilities	36.00	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total	77.92 (Rs. Seventy Seven crore and Ninety two lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) takes into account improvement in financial performance of the group in FY18 (refers to period from April 1 to March 31) and H1FY19. The ratings further, derives comfort from long track record of the company and experienced promoters, strategic location of the plant, strong clientele and moderate financial risk profile. The above ratings are however constrained by low capacity utilization, profitability susceptible to volatility in input cost, working capital intensive nature of operation and cyclicity associated with the steel industry.

Going forward, the ability of the company to increase scale of operations, improve capital structure and efficient management of working capital would remain the key rating sensitivities.

Detailed Description of key rating drivers

Key Rating Strength

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

Strategic location of the plant: The manufacturing facilities of the Mahamaya group enjoys logistical advantage due to their strategic location in Raipur in the state of Chhattisgarh with availability of raw material like sponge Iron, Steel Scrap and well connectivity to road/ rail leading to cost effectiveness.

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.

Improvement in financial performance in FY18: The total operating income of the group increased by ~14% to Rs.356.42 crore in FY18 as against Rs.304.29 crore in FY17. PBILDT margin improved from 2.82% in FY17 to 6.25% in FY18 mainly due to better realizations of its end product. On absolute basis the group reported PBILDT of Rs.22.29 crore in FY18 as against Rs.8.58 crore in FY17. Higher PBILDT (~+20%) coupled with relatively stable interest cost led to improvement in interest coverage ratio from 0.57x in FY17 to 1.49x in FY18. The group reported GCA of Rs.10.78 crore as against term debt repayment of Rs.2.34 crore in FY18. In H1FY19, the group reported PBILDT of Rs.14.78 crore (as against PBILDT of Rs.8.29 crore in H1FY18) on total operating income of Rs.295.91 crore (as against Rs.133.80 crore in H1FY18).

On a standalone basis, total operating income of MSIL increased by ~18% y-o-y to Rs.299.20 crore in FY18 as against Rs.253.79 crore in FY17 mainly due to better realization. PBILDT margin improved from 5.18% in FY17 to 7.01% in FY18. In H1FY19, MSIL reported PBT of Rs.3.78 crore (as against PBT of Rs.0.36 crore in H1FY18) on total operating income of Rs.227.81 crore (as against Rs.104.03 crore in H1FY18).

Moderate financial risk profile: The overall gearing of the group remained stable at 1.71 as on March 31, 2018 as against 1.67x as on March 31, 2017. However, Total debt/ GCA continued to remain high at 13.16x on March 31, 2018. The capital structure of the group improved in H1FY19 marked by overall gearing and total debt/GCA of 1.55x and 9.20x respectively as on September 30, 2018.

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

On a standalone basis the capital structure of the MSIL was stable with overall gearing at 1.95x as on March 31, 2018. Total Debt/ GCA though improved continued to remain high at 12.09x as on March 31, 2018.

Key Rating Weaknesses

Partial exposure to volatility in prices of raw-material: Raw material (sponge iron/scrap) is the major cost driver constituting about 75% of the cost of sales followed by power (~8%) in FY18. The prices of its raw materials are highly volatile in nature and any northward movement in the prices of the raw material without any corresponding movement in the finished goods prices may adversely affect the profitability of the group.

Low capacity utilization: The capacity utilization of the rolling mill and melting shop continued to remain low at 32% and 11% respectively in FY18. MS-Strips facility commissioned from July 2018 and MS-Pipe from December 2017 and the capacity ramped up to 82% and 64% respectively in the very first year of operation.

Working capital intensive nature of business: The operation of the group is working capital intensive in nature as the group hold inventory of about 2-3 months and provide a credit period of about a month to its customers in view of general practice of the industry. The average utilisation of fund based working capital limit remained high around 85% during the past 12 month ended November 2018.

Cyclicality associated with the steel industry: 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. However, the Indian Government focus on infrastructure investment is expected to create significant demand for the steel in the country.

Liquidity: The liquidity position of the company continued to remain moderate as evident from average working capital utilization of ~85% during the past twelve months ending November 2018. Current ratio slightly improved from 1.08x in FY17 to 1.15x in FY18. The group has cash and bank balance of Rs.2.02 crore as on March 31, 2018.

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

Mahamaya Steel Industries Limited (MSIL) belongs to Raipur based Mahamaya group promoted by Mr. Ramanand Agarwal in 1988. MSIL operates heavy section steel structural capacity of 2,55,000 tpa, bloom capacity of 2,89,500 tpa, Oxygen/Nitrogen gas plant of 18,00,000 Cubic meter at its plant located in Raipur, Chhattisgarh. ASIL is an associate company of the group and is engaged in manufacturing of M.S.Strips and M.S.Pipes with an installed capacity of 42,000 tpa and 15,000 tpa respectively. The day to day affairs of the group is looked after by Mr. Rajesh Agarwal along with the support from a team of experienced professional.

Brief Financials (Rs. crore)(MSIL-Standalone)	FY17 (A)	FY18 (A)
Total operating income	253.79	299.20
PBILDT	13.14	20.96
PAT	2.54	2.53
Overall gearing (times)	1.92	1.95
Interest coverage (times)	1.18	1.81

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 firm 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-Cash Credit	-	-	-	30.00	CARE BBB-; Stable
Term Loan-Long Term	-	-	June 2024	4.42	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	36.00	CARE A3
Fund-based - LT-Proposed fund based limits	-	-	-	7.50	CARE BBB-; 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 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-Cash Credit	LT	30.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (27-Feb-18) 2)CARE BB+; Stable (08-Feb-18)	-	-
2.	Term Loan-Long Term	LT	4.42	CARE BBB-; Stable	-	1)CARE BB+; Stable (27-Feb-18)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	36.00	CARE A3	-	1)CARE A4+ (27-Feb-18)	-	-
4.	Fund-based - LT-Proposed fund based limits	LT	7.50	CARE BBB-; Stable	-	1)CARE BB+; Stable (27-Feb-18)	-	-

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