

Mahamaya Steel Industries Limited
December 27, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long -term Bank Facilities	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	76.73 (Rs. Seventy six crore and seventy three lakhs only)		

* Details of instrument/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 and improvement in the financial performance of the company during FY19 (refers to the period from April 1 to March 31); albeit moderation during H1FY20 (refers to the period from April 1 to September 30) with moderate debt coverage indicators

The rating is however, constrained by client concentration risk, high exposures to group companies, low capacity utilization, profitability susceptible to volatility in input cost and cyclical in the steel industry amidst intense competition.

The ability of the company to increase its scale of operations and efficient management of working capital are the key rating sensitivities.

Positive Rating Sensitivity

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

Negative Rating Sensitivity

- Further deterioration in the financial performance coupled with moderation in the overall gearing ratio and debt coverage indicators beyond current levels (FY19).

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.

Improvement in financial performance in FY19; albeit moderation during H1FY20

The Total Operating Income (TOI) of MSIL registered a y-o-y growth of ~53% during FY19 at Rs.467.29 crore. The increase in top line was mainly driven by better realization coupled with improved sales volume. However the group reported lower PBILDT margin of 5.29% during FY19 as against 7.54% during FY18 mainly on account of increase in the prices of raw materials. This apart the operating margin was also impacted due to writing off bad debts amounting to Rs.3.54 crore during FY19. The PAT levels however remained satisfactory and improved to Rs.6.10 crore in FY19 from Rs.2.53 crore in FY18. GCA improved and remained satisfactory at Rs.12.06 crore as against debt repayment obligation of Rs.3.75 crore in FY19 (including Rs.2.20 crores as redemption of preference shares).

On a half yearly basis, MSIL reported TOI of Rs.179.84 crore in H1FY20 as against Rs.227.81 crore in H1FY19. The PBILDT and PAT margins witnessed moderation to 4.01% and 1.65% in H1FY20 as against 5.46% and 1.82% in H1FY19. The fall in sales is mainly a due to lower sales realization.

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

Moderate debt coverage indicators

Capital Structure continued to remain moderate with improvement in the overall gearing ratio from 1.95 times as on March 31, 2018 to 1.78 times as on March 31, 2019. The improvement in overall gearing is on the back of gradual repayment of term debt coupled with accretion of profit to reserve. Total Debt/GCA also improved to 10.24 times in FY19 from 12.09 times during FY18.

Key Rating Weaknesses**Client concentration risk**

The exposure to PSUs (i.e. BHEL, MAHAGENCO, MSPDCL etc.) has decreased during latter half of FY19 and H1FY20 due to low tenders being floated by the PSUs. Accordingly, MSIL is exposed to high customer concentration risk which has gradually increased from 25% in FY18 to 38% in FY19 and 42% in H1FY20.

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.34.78 crores as on March 2019 (accounting for nearly 50% of the net worth as on March 31, 2019 as against 73% of the net worth as on March 2018). 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 3.57x as on March 31, 2019 (7.17x as on March 31, 2018).

Partial exposure to volatility in the prices of raw material

Raw material (sponge iron/scrap) is the major cost driver constituting about 78% of the cost of sales in FY19. 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.

Low capacity utilization

The capacity utilization of the rolling mill and melting shop (MSIL) continued to remain low at 50% and 48% respectively in FY19. It further moderated to 43% and 40% respectively during H1FY20.

Cyclical 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.

Liquidity Analysis: Adequate

The liquidity position of the company remained moderate characterized by average utilization of the working capital at ~69% during the past twelve months ending October 2019. The company has written off debtors to the tune of Rs.3.55 crore during FY19. Accordingly, the operating cycle of the company reduced to 59 days in FY19 as against 80 days in FY18. This apart the company has cash and bank balance of Rs.4.39 crores as on March 31, 2019 (Rs.5.11 crore as on March 31, 2018).

Analytical approach: Standalone**Applicable Criteria**

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

[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)	FY18 (A)	FY19 (A)
Total operating income	300.92	467.29
PBILDT	22.69	24.74
PAT	2.53	6.10
Overall gearing (times)	1.95	1.78
Interest coverage (times)	7.54	5.29

A: Audited

Status of non-cooperation with previous CRA: ICRA has continued to place the rating of ICRA BB, Stable/A4+ Issuer Not Co-operating vide press release dated July 26 2019.

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	-	-	June, 2024	3.23	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE BBB-; Stable / 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	46.00	CARE BBB-; Stable	-	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	3.23	CARE BBB-; Stable	-	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 A3 (19-Dec-18)	1)CARE A4+ (27-Feb-18)	-
4.	Fund-based - LT-Proposed fund based limits	LT	7.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (19-Dec-18)	1)CARE BB+; Stable (27-Feb-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.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name: Mr. Abhishek Khemka

Group Head Contact no. +91 (0)33-40181610

Group Head Email id: abhishek.khemka@careratings.com

Relationship Contact

Name: Lalit Sikaria

Contact no. :+91 (0)33-40181607

Email ID: lalit.sikaria@careratings.com

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