

## Mideast Integrated Steels Limited

January 10, 2018

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities (Proposed )	100.00	<b>CARE BB- [Double B Minus]; Credit watch with Developing Implications</b>	Placed on Credit watch with developing implications
Short-term bank facilities (Proposed)	100.00	<b>CARE A4 [A Four]; Credit watch with Developing Implications</b>	Placed on Credit watch with developing implications
<b>Total</b>	<b>200.00 (Rs. Two Hundred crore only)</b>		

*Details of instruments/facilities in Annexure-1*

*The ratings of the proposed bank facilities of Mideast Integrated Steel Limited (MISL) have been put on Credit Watch with developing implication in view of announcement by MISL of closing mining operation at its site in Roida-1 in Orissa post judgement of Hon'ble Supreme Court of India. The company has filed a review petition with the Hon'ble Supreme Court of India*

*CARE would take a view on the ratings after analysing impact of the above announcement and outcome of review petition on the business and financial profile of MISL.*

### Detailed Rationale

*The reaffirmation of ratings to proposed bank facilities of MISL continues to be constrained by exposure to volatility of iron-ore prices, moderate financial risk profile, on-going litigations on promoter groups and high regulatory risk associated with mining industry. The ratings continue to consider the financial support and unconditional & irrevocable corporate guarantee given to lenders of Maithan Ispat Limited (MIL, subsidiary of MISL).*

*However, the rating constrains are partially offset by experienced promoters in mining industry.*

*Ability of the company to improve overall business and financial risk profile and outcome of on-going litigations on promoter groups are key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Closure of mining operations**

On January 01, 2018 the company announced that the mining operations of the company at its site in Roida-1, Orissa are closed from December 31, 2017 subsequent to the order passed by Hon'ble Supreme Court.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

MISL as per the court order has come under violation of production in excess of environmental clearances and the amount payable towards compensation as per Central Empowered Committee (CEC) calculation is approximately Rs. 925 crore. The management of the company informed that the MISL has filed review petition and outcome is awaited. MISL reported major revenue from mining operations in FY17 and H1FY18 (refers to period April 01, to September 30,). Going forward outcome of review petition towards suspension of mining operations of the company would be key rating monitorable.

#### ***Moderate financial risk profile***

At consolidated level, the tangible net worth of the company reduced from Rs. 536.10 crore as on March 31, 2016 to Rs. 487.69 crore as on March 31, 2017 on account of higher losses in subsidiary. As a result, overall gearing ratio of the company increased from 2.23 times at end-FY16 to 2.48 times at end-FY17. At consolidated level, total debt to gross cash accruals continues to be weak at 33.13 times as on March 31, 2017. MISL at standalone level, reported decline in operational performance in FY17 as compared to FY16 on account of discontinuing of pig iron production. Total sales of the company dipped from Rs. 488 crore in FY16 to Rs. 283.15 crore in FY17. Also, the realization of iron ore dipped from Rs. 1,486 per mmt during FY16 to Rs. 1,064 per mmt during FY17. However, the company reported increase by 38% in Total Income to Rs. 192 crore in H1FY18 as compared to Rs. 139.36 crore in H1FY17 on account of higher contribution from mining business. However, as per the recent court order the mining activity of the company is suspended from December 31, 2017 till further court order.

#### ***Volatility associated with iron ore prices***

Globally iron ore is facing over-supply scenario. Globally iron ore realization is predominantly dependent upon Chinese demand as China is the largest importer of iron-ore in the world. The demand from China has come down in the recent months. China's steel production growth rate has also slowed significantly as a result and this is despite a sharp rise in exports. Consequently, the iron ore prices have been subdued in past three years. MISL continues to be impacted by the lower iron ore prices. The company, despite increase in volume post lifting of mining ban reported lower levels of realizations.

#### ***Continual of extension of corporate guarantee towards debt servicing of group company***

During FY15, MISL acquired 99.28% stake in MIL which has an integral steel plant located at Kalinganagar, Orissa. Subsequently, the company extended unconditional and irrevocable corporate guarantee to the tune of Rs. 784.0 crore to lenders of MIL. In addition to it, MISL infused aggregate amount of Rs. 120 crore in MIL over a period of two years from April, 2015. In addition to it the company acquired Cumulative Redeemable Preference Shares of Rs. 30 crore.

Going forward the stabilization of MIL's operations and achievement of envisaged cash accruals would be key rating monitorable.

#### ***Ongoing litigations against the promoters***

The promoters of the company are facing few legal cases filed by Central Bureau of Investigation (CBI) in 2000. The promoter directors of MISL; Mr. J. K. Singh, Ms. Rita Singh and Ms. Natasha Singh have been charged in

their individual capacities in 2 of the cases; whereas Mideast (India) Ltd. (holds 23.61% in MISL) has been charged in 2 other cases. However, MISL is not charged in any of these cases.

### Key Rating Strengths

#### *Experienced management*

The promoters of the company - Mr. J. K Singh and Ms. Rita Singh have over a decade of experience in mining industry. The day-to-day operations of company are handled by a team of qualified and experienced professionals headed by Ms. Rita Singh (Chairman and Managing Director).

**Analytical approach:** Consolidated

#### Applicable Criteria

[CARE's criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

#### About the Company

Incorporated in 1992, MISL is a flagship company of the MESCO group and is engaged in iron ore mining (annual licensed capacity of 6 Million Metric Tonne (mmt) and manufacturing of pig iron (0.59 mmtpa). The company has an iron ore mine (merchant mine) at Roida, Odisha and pig iron plant is located at Jajpur, Odisha. The company also has sinter plant (0.70 mmtpa) and 9 MW captive power plant operating on blast furnace gas.

In 2004, MISL tied up with Stemcor Group, UK and with the funds infused by Stemcor over a period of time, the company commissioned its plant and mine and also repaid all its lenders under the One Time Settlement scheme.

MISL acquired Maithan Ispat Limited (MIL – 99.58% subsidiary of MISL) on March 31, 2015 which has an integrated steel plant comprising manufacturing facilities like sponge iron (capacity 2,30,000 TPA) & billets (capacity 2,46,000 TPA), heavy section steel (capacity 3,76,000 TPA) and captive power plant of 30 MW at Kalinganagar Industrial Complex, Orissa.

Brief Financials (Rs. crore)	FY16 (A, Consolidated)	FY17 (A, Consolidated)
Total operating income	732.03	683.12
PBILDT	87.15	128.87
PAT	(72.53)	(66.62)
Overall gearing (times)	2.23	2.48
Interest coverage (times)	1.35	1.28

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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-Proposed fund based limits	-	-	-	100.00	CARE BB- (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	100.00	CARE A4 (Under Credit watch with Developing Implications)

## 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-Proposed fund based limits	LT	100.00	CARE BB- (Under Credit watch with Developing Implications)	1)CARE BB- ; Stable (11-May-17)	1)CARE B (06-Sep-16)	1)CARE BBB- (23-Mar-16) 2)CARE BBB- (07-Apr-15)	-
2.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A4 (Under Credit watch with Developing Implications)	1)CARE A4 (11-May-17)	1)CARE A4 (06-Sep-16)	1)CARE A3 (23-Mar-16) 2)CARE A3 (07-Apr-15)	-

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