Mideast Integrated Steels Limited

May 11, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Long-term fund based bank limits	100.00	**CARE BB-; Stable [Double B Minus; Outlook: Stable]**	Revised from CARE B [Single B]
Proposed Short-term non-fund based bank limits	100.00	**CARE A4 [A Four]**	Reaffirmed
Total	**200.00 (Rupees Two Hundred crore only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to proposed bank facilities of Mideast Integrated Steels Limited (MISL) is on account of improvement in operational and financial performance of subsidiary (Maithan Ispat Limited, MIL) in FY17 (provisional, refers to period April 01, to March 31,) resulting in reduction in losses in MIL. The ratings continue to derive strength from experienced promoters in mining industry.

However, the rating strengths are partially offset by exposure to volatility of iron-ore prices, moderate financial risk profile, weak liquidity position, ongoing litigations against the promoters and regulatory risk associated with mining industry.

Ability of the company to improve financial risk profile, stabilize MIL's operations and achievement of envisaged cash accruals are key rating sensitivities.

Detailed description of the key rating drivers

Key rating weakness

Moderate financial risk profile

MISL's total debt at consolidated level continues to be high at Rs. 1,142.57 crore as on March 31, 2016. The tangible net worth of the company reduced from Rs. 615.33 crore as on March 31, 2015 to Rs. 536.11 crore as on March 31, 2016 on account of higher losses in subsidiary. As a result, overall gearing ratio of the company increased from 1.89 times at end-FY15 to 2.23 times at end-FY16.

With lower realisation of iron ore, the company was unable to achieve envisaged gross cash accurals levels in FY16. At consolidated level, gross cash accurals of the company dipped from Rs. 60.86 crore in FY15 to Rs. 22.54 crore in FY16. As a result total debt to gross cash accurals increased from 19.09 times as on March 31, 2015 to 53.14 times as on March 31, 2016.

Continual of extension of corporate guarantee towards debt servicing of group company (MIL)

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 would infuse aggregate amount of Rs. 120 crore in MIL over a period of two years from April, 2015 with monthly contribution of Rs. 5.0 crore. As on March 31, 2016 the company has infused Rs. 56.39 crore. In addition to it the company acquired Cumulative Redeemable Preference Shares of Rs. 30 crore. There was no payout to the existing promoters of MIL.

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 & Managing Director).

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

Improvement in operational and financial performance of subsidiary in FY17 (provisional)

MIL, subsidiary of MISL reported improvement in revenue to Rs.417.42 crore in FY17 (prov.) from Rs. 350.62 crore in FY16 on account of increase in sales of billets. Further, with rationalization of operations of MIL, the PBILDT levels of the company increased from Rs. 8.21 crore in FY16 to Rs. 28.18 crore in FY17 (Prov.). As a result, there were reduction losses from Rs. 80.75 crore in FY16 to Rs. 63.40 crore in FY17 (Prov.). MISL at consolidated level reported loss of Rs. 72.22 crore on Total Operating Income (TOI) of Rs. 732.03 in FY16.

Going forward the ability of MISL to stabilize MIL's operations would be key rating sensitivity.

However, MISL at standalone level continues to report moderate operational performance in FY16 on account of weak demand-supply scenario of steel. The company discontinued production of pig iron on account of lower demand offtake and lower price realizations. As a result the revenue dipped from Rs. 621.22 crore in FY15 to Rs. 488 crore in FY16. Also, the realization of iron ore dipped from Rs. 2,448 per mmt during FY15 to Rs. 1,486 per mmt during FY16.

Analytical approach: Consolidated

The rating on bank loan facilities of MISL is arrived by taking view on consolidated MISL's operations. The operations of MISL and its subsidiaries are closely linked. In addition to it, MISL has given unconditional & irrevocable corporate guarantee to lenders of subsidiary towards timely debt servicing.

Applicable Criteria

CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Factoring Linkages in Ratings
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 pig iron (0.59 mmtpa) manufacturing. 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.

MISL acquired Maithan Ispat Limited (MIL) 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**.**

At consolidated level, the company reported loss of Rs. 72.22 crore on Total Operating Income (TOI) of Rs. 732.03 crore in FY16 (refers to period April 01, to March 31,) as compared to Profit After Tax (PAT) of Rs. 1.02 crore on TOI of Rs. 643.85 crore in FY15.

At standalone level, the company reported PAT of Rs. 8.53 crore on TOI of Rs. 502.43 crore in FY16 as compared to PAT of Rs. 1.02 crore on TOI of Rs. 643.85 crore in FY15. Further, the company reported PAT of Rs. 8.61 crore on TOI of Rs. 195.81 crore in 9MFY17 (refers to period April 01 to December 31,) as compared to PAT of Rs. 0.99 crore on TOI of Rs. 408.39 crore in 9MFY16.

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-Proposed fund based limits	-	-	-	100.00	CARE BB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	100.00	CARE A4

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-; Stable	-	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	-	1)CARE A4 (06-Sep-16)	1)CARE A3 (23-Mar-16) 2)CARE A3 (07-Apr-15)	-

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