

Usha Martin Limited

October 03, 2018

Ratings

Facilities	Amount (Rs crore)	Ratings ¹	Rating Action
Short-term Bank Facilities	2,275	CARE A4+; Credit watch with positive implications (A Four Plus; Credit watch with positive implications)	Placed on credit watch with positive implications
Total Facilities	2,275 (Rupees Two Thousand Two Hundred and Seventy Five Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has placed the rating assigned to Usha Martin Ltd (UML) on credit watch with positive implications. The rating action follows the execution of a definitive agreement for sale of its steel division to Tata Steel Limited (TSL) or its subsidiaries through slump sale on a going concern basis for a consideration in the range of Rs.4,300 crore to Rs.4,700 crore. As a part of the agreement, both the parties need to fulfill certain conditions which are precedent for closing the deal. Further, all the employees of steel division will be transferred as a part of divestment and the sale proceeds will be first utilized to repay existing lenders of UML. The board of UML has approved the transaction. The steel division contributed about 60% of the turnover of UML.

Post completion of the transaction, UML will continue to operate the wire rope business in which it has a leadership position and the debt level is expected to reduce substantially. The same is expected to result in significant improvement in the credit risk profile of the company.

CARE will take a view on the rating once the transaction is completed and the exact implications on the credit profile of UML are clear.

The rating assigned to the bank facilities of UML are constrained by the significant amount of loss incurred in FY18 and high overall gearing with weak debt coverage indicators and susceptibility of profitability to volatility in input & finished goods prices. The rating, however, takes note of the improvement in profitability in Q1FY19.

The rating draws strength from the long experience & satisfactory track record of the promoters, leadership position in the domestic steel wire ropes industry, backward integration with captive iron-ore mine and availability of forward integration.

Key Rating Weaknesses

Significant loss incurred in FY18 with high debt levels and weak coverage indicators

The operating income of UML grew by about 12% in FY18 over FY17. There was improvement in operating profitability and the PBILDT margin improved to 12.93% in FY18 from 10.44% in FY17. However, the company incurred net loss of Rs.282 crore in FY18 due to the high capital charge incurred on debt funded capital expenditure in the past.

Overall gearing was high at 35.72x as on Mar.31, 2018 with gradual erosion of networth due to losses in the last three years and high debt level. Interest coverage continued to remain below unity.

However, with increase in operating income and PBILDT margin in Q1FY19, PBILDT interest coverage improved to 1.59x in Q1FY19.

Susceptibility of profitability to volatility in input and finished goods prices

Raw-material (incl. stores & spares) is the most important cost driver for UML, accounting for more than 60% of cost of sales. UML is considerably insulated from volatility in iron ore prices for steel production by virtue of having captive mines. However, it is exposed to the volatility in coking coal, non-coking coal for power and DRI and finished goods prices.

Detailed description of key rating drivers

Key rating Strengths

Long experience and satisfactory track record of promoters

Kolkata-based Jhawar group is one of the major industrial groups of Eastern India, with interests in long-steel products, wire ropes and cables wires. UML, the flagship company, has been in operation since 1961 and gradually through various backward and forward integration initiatives has attained significant level of integration in operations.

UML's leadership position in the domestic steel wire ropes industry

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

UML operates end to end integrated facilities for value added specialty steel and related products. It is mainly engaged in manufacturing of sponge iron, pig iron, billets, bars & blooms, wire rods & other rolled products (at its steel division) and steel wires, wire ropes, strands, bright bars & conveyor cords (at its wire & wire ropes division). It is the largest domestic manufacturer of wire and wire ropes.

Backward and forward integration de-risks business model to a certain extent

UML has a captive iron-ore mine which assures continuous supply of raw-material at relatively lower prices. Further, UML has forward integration for its long-steel products in the form of manufacturing facility for wire ropes. Given the leadership position of UML in the domestic wire ropes industry, this availability of forward integration reduces the off-take risk to an extent.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology- Steel Companies](#)

About the Company

UML, the flagship company of Kolkata-based Jhwar group, is a mid-sized steel manufacturer with saleable steel capacity of around 1 million tonnes per annum. It operates end to end integrated facilities to manufacture long-steel products and specialty steel and related products. The company has its manufacturing units at Ranchi, Jamshedpur, Hoshiarpur (Punjab) and Chennai.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3640	4092
PBILDT	380	529
PAT	-355	-282
Overall gearing (times)	12.84	35.72
Interest coverage (times)	0.69	0.93

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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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.

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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 - ST-Working Capital Demand loan	-	-	-	600.00	CARE A4+ (Under Credit watch with Positive Implications)
Non-fund-based - ST-BG/LC	-	-	-	1500.00	CARE A4+ (Under Credit watch with Positive Implications)
Fund-based/Non-fund-based-Short Term	-	-	-	175.00	CARE A4+ (Under Credit watch with Positive 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 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.	Short Term Instruments-STD/NCD/CP	ST	-	-	-	-	-	1)Withdrawn (27-Nov-15)
2.	Fund-based - ST-Working Capital Demand loan	ST	600.00	CARE A4+ (Under Credit watch with Positive Implications)	-	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)	1)CARE A3+ (27-Nov-15)
3.	Non-fund-based - ST-BG/LC	ST	1500.00	CARE A4+ (Under Credit watch with Positive Implications)	-	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)	1)CARE A3+ (27-Nov-15)
4.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (10-Feb-17)	1)CARE A3+ (27-Nov-15)
5.	Fund-based/Non-fund-based-Short Term	ST	175.00	CARE A4+ (Under Credit watch with Positive Implications)	-	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)	1)CARE A3+ (27-Nov-15)

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