Usha Martin Limited

November 22, 2019

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Short-term Bank Facilities	-	-	Revised to CARE A2 (A Two) from CARE A4+ (A Four Plus); Credit watch with positive implication and Withdrawn
Short term Bank Facilities	-	-	Withdrawn
Total Facilities	**-**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to Usha Martin Limited (UML) takes into account the significant improvement in financial risk profile of the company marked by improvement in profitability, capital structure and debt coverage indicators post completion of sale of its steel division to Tata Steel Long Products Ltd (TSLPL, formerly known as Tata Sponge Iron Limited) in April, 2019. The proceeds of the steel business sale were utilised to reduce debt. The rating has been removed from credit watch after analysing the impact of the sale on the credit risk profile of UML.

The rating continues to draw strength from the long experience of the promoters in the industry and leadership position of UML in the domestic wire ropes industry along with presence in the export market.

The rating, however, is constrained by the susceptibility of profitability to volatile input prices and absence of integration in operations post the sale of steel division. The rating also takes note of the differences amongst the promoter group and high contingent liabilities.

CARE has revised the rating outstanding for the short term bank facilities of UML and simultaneously withdrawn the rating with immediate effect on the request of UML and 'No Objection Certificate' received from the bank that has extended the facility rated by CARE.

CARE has also withdrawn the ratings assigned to the Bank facilities of Rs.2225 crore of UML with immediate effect, as the company has repaid the aforementioned bank facilities in full and there is no amount outstanding under the facilities as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Long experience of promoters

Kolkata-based Jhawar group is the promoter of the company, with present interest in wire ropes and steel wires. The promoters have long experience in the steel industry and UML used to be an integrated steel player with a captive iron ore mine before the steel plant was sold to TSLPL.

UML's leadership position in the domestic steel wire ropes industry and presence in export market

UML is the largest domestic manufacturer of wire and wire ropes with capacity of 259,320 MTPA and one of the largest globally. It manufactures value added products which are customised. It also has overseas manufacturing facility in UK, Thailand and Dubai. The company has developed an overseas market for its wire ropes to reduce dependency on demand in domestic markets. Wire ropes are primarily sold in the international market through overseas subsidiaries. The gross revenue from exports was Rs.412 crore in FY19, representing about 24% of total revenue.

The company manufactures steel wires, strands, Low relaxation strand (LRPC) and steel wire ropes of various specifications.

Improvement in profitability with sale of steel division

With sale of steel division, the operating income of UML has reduced considerably. However, the steel division was incurring losses due to high capital charge. Considering the continuing operations, UML's total operating income increased by about 21% y-o-y to Rs.1711 crore in FY19 backed by higher sales realization in wire rope division. The PBILDT margins improved from 12.57% in FY18 to 14.95% in FY19 mainly due to increase in sales of higher margin products like crane ropes, high value mining ropes, aerial haulage ropes and structural ropes for bridges. Further, there was increased demand for LRPC strands.

The company achieved GCA of Rs.189 crore from continuing operations in FY19 against overall GCA of Rs.88 crore due to loss in steel division. With significantly lower capital charge, the coverage indicators also improved. Interest coverage, which was below unity in overall operations in FY18, improved to 2.84x in continuing operations (2.32x in continuing operations in FY18).

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

The overall performance of the company moderated slightly in H1FY20 due to decline in prices of finished goods as well as raw material. The PBILDT margin reduced from 14.58% in H1FY19 to 11.75% in H1FY20. The reported PAT increased to Rs.388 crore despite a high deferred tax charge due to profit on disposal of steel business (Rs.566 crore).

Significant improvement in capital structure and debt coverage indicators
The capital structure was highly leveraged till Mar.31, 2019 due to debt funded capex undertaken in the past years along with continuing losses due to subdued industry scenario and high capital charge which could not be absorbed. However, post the sale of the steel division, there was significant improvement in capital structure as the proceeds were utilised to reduce debt. The total debt reduced from Rs.4327 crore as on March 31, 2019 to Rs.543 crore as on September 30, 2019 which includes Rs.100 crore loan against balance sale consideration of Rs.160 crore to be received from TSLPL (subject to completion of certain formalities). The debt protection metrics improved significantly in H1FY20. As on September 30, 2019, the overall gearing and Total Debt/GCA were comfortable at 0.89x and 4.10x respectively. Interest coverage was adequate at 2.58x.

Key Rating Weaknesses
Susceptibility of profitability to volatility in input and finished goods prices
Raw-material is the most important cost driver for wire rope division of UML accounting for about 66% of cost of sales. Earlier, the company had significant integration in the form of presence of captive iron ore mines and steel manufacturing facility which supplied the major raw material required for manufacturing wire ropes. The company is continuing to source raw material from its steel plant as per the sale agreement which meets about 50% of its requirement.
The profitability of the company remains exposed to volatility in raw material prices. However, its products being largely order driven, it has ability to pass on the increase to an extent, though with a time lag.

Contingent liabilities and differences amongst promoter group
The contingent liabilities relating to various statutory and other demands which have remained with the company were high at about Rs.519 crore as on Mar.31, 2019. Further, the assets of the wire rope division were provisionally attached in August 2019 for a period of 180 days in connection with sale of iron ore from captive mines. Crystallization of such labilities may adversely impact the financial risk profile of the company.
There have been differences amongst the promoters with respect to the management of the company. Though the company has been able to successfully complete the steel division sale, any unfavourable outcome of the dispute among the promoters could impact the operations of the company.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings
CARE’s Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Policy on Withdrawal of ratings

About the Company
UML is India’s largest wire rope manufacturer. Its production facility for wire ropes and specialty products is based in Ranchi and Hoshiarpur in Punjab.
The company also had an integrated steel division with capacity of nearly one million ton for manufacturing long products. The facility was located in Jamshedpur. UML had executed definitive agreement for sale of its steel division, operating iron ore mine and coal mines under development to TSLPL through slump sale on a going concern basis for a consideration of Rs.4,525 crore in Sep 2018. The transfer of assets in the steel business (excluding iron ore mine, coal mine and certain assets) was completed on April 9, 2019. Further, the iron ore mine and coal mine were transferred on July 3, 2019 and presently certain assets (land, mine assets) are remaining to be transferred after completion of procedural formalities with balance consideration due of Rs.160 crore.

Brief Financials (Rs. Crore)	FY18* (A)	FY19 (A)
Total Operating income	1413	1711
PBILDT	178	256
PAT (Continued & Discontinued operations)	-282	59
PAT (Continued Operations)	121	399

Overall Gearing (times)	35.38	15.16
Interest Coverage (times)	2.32	2.84

**restated post signing of agreement for sale of steel division, 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

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	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-Short Term	-	-	-	0.00	Withdrawn

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 - ST-Working Capital Demand loan	ST	-	-	-	1)CARE A4+ (Under Credit watch with Positive Implications) (12-Mar-19) 2)CARE A4+ (Under Credit watch with Positive Implications) (03-Oct-18)	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A4+ (Under Credit watch with Positive Implications) (12-Mar-19) 2)CARE A4+ (Under Credit watch with Positive Implications) (03-Oct-18)	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (10-Feb-17)
4.	Fund-based/Non-fund-based-Short Term	ST	-	-	-	1)CARE A4+ (Under Credit watch with Positive Implications) (12-Mar-19) 2)CARE A4+ (Under Credit watch with Positive Implications) (03-Oct-18)	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)

***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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