Usha Martin Limited

March 12, 2019

Rating

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)**	**Continues 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

The ratings assigned to the bank facilities of Usha Martin Ltd (UML) continue to remain on credit watch with positive implications considering 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. As part of the agreement, both the parties need to fulfill certain conditions precedent for closing the deal which is under process. The sale proceeds will be utilized to repay existing lenders of UML. 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 deal is in advanced stage of completion and the credit risk profile of UML is expected to improve significantly post completion of the transaction.

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 remains constrained by the leveraged capital structure with weak debt coverage indicators and susceptibility of profitability to volatility in input & finished goods prices.

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. The rating also takes note of the improvement in profitability in 9MFY19 (refers to the period April 1 to December 31).

Detailed description of key rating drivers

Key Rating Weaknesses

Leveraged capital structure with weak debt coverage indicators

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, post the ongoing sale transaction of steel division, the financial position of the company is expected to improve significantly.

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 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

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, pellets, 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.

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

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.

Improvement in financial performance in 9MFY19

The operating income of UML grew by about 26% in FY18 over FY17. The PBILDT margin remained stable and stood at 12.67% in FY18. 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.

In 9MFY19, however, the profitability of the company improved with increase in realisation and higher capacity utilisation and it reported net profit of Rs.2 crore as against net loss of Rs.296 crore in 9MFY18. The wire rope division achieved profit before tax of Rs.121.8 crore in 9MFY19 (Rs.72 crore in 9MFY18), while the loss in steel division (discontinued operations) reduced to Rs.119.53 crore (loss of Rs.368 crore in 9MFY18).

Liquidity

The liquidity position has improved in 9MFY19 with improvement in profitability. The average fund based utilization was about 95% in the last 12 month ended December 31, 2018. The company is meeting debt repayment obligations through stretching working capital and support through group entities. However, the liquidity position of the company is expected to improve significantly with sale of steel division as debt level is expected to reduce significantly.

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
Criteria for placing rating on credit watch

About the Company

UML, the flagship company of Kolkata-based Jhawar group, is a mid-sized steel manufacturer with saleable steel capacity of around 1 million ton 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	3283	4140
PBILDT	423	525
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.

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+ (Under Credit watch with Positive Implications) (03-Oct-18)	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+ (Under Credit watch with Positive Implications) (03-Oct-18)	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+ (Under Credit watch with Positive Implications) (03-Oct-18)	1)CARE A4+ (29-Nov-17)	1)CARE A3 (10-Feb-17)	1)CARE A3+ (27-Nov-15)

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