CARE Ratings
Professional Risk Opinion

CARE/KRO/RR/2019-20/1273

**Mr. Rajesh Agrawal**
Managing Director
**Mahamaya Steel Industries Limited**
Street Number 17C
Urla Industrial Complex
**Raipur – 493221**

January 03, 2020

Dear Sir

**Credit rating of bank facilities aggregating to Rs. 76.73 crore only**

Please refer to our letter(s) dated December 23, 2019 on the captioned subject.

2. The rationale for the rating(s) is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 06, 2020, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

**[Abhishek Khemka]**
**Sr. Manager**
abhishek.khemka@careratings.com

Encl.: As above

**Annexure-I**
**Rating Rationale**
**Mahamaya Steel Industries Limited**

## Ratings

| Bank Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long -term Bank Facilities | **56.73** | **CARE BBB-; Stable (Triple B minus; Outlook: Stable)** | **Reaffirmed** |
| Long Term/Short Term Bank Facilities | **20.00** | **CARE BBB-; Stable/ CARE A3 (Triple B minus; Outlook: Stable/ A Three)** | **Reaffirmed** |
| **Total** | **76.73 (Rs. Seventy six crore and seventy three lakhs only)** | | |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The reaffirmation in the ratings assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) continues to draw strength from long track record of the company and experienced promoters, strategic location of the plant and improvement in the financial performance of the company during FY19 (refers to the period from April 1 to March 31); albeit moderation during H1FY20 (refers to the period from April 1 to September 30) with moderate debt coverage indicators*

*The rating is however, constrained by client concentration risk, high exposures to group companies, low capacity utilization, profitability susceptible to volatility in input cost and cyclicality in the steel industry amidst intense competition.*

*The ability of the company to increase its scale of operations and efficient management of working capital are the key rating sensitivities*

### Key Rating Sensitivity

### Positive Rating Sensitivity

- The ability of the group to increase its scale of operation with improvement in its operating margin beyond 8% on a sustained basis.
- Reduction in overall gearing below 1 times on a sustained basis.

### Negative Rating Sensitivity

- Further deterioration in the financial performance coupled with moderation in the overall gearing ratio and debt coverage indicators beyond current levels (FY19).

### Detailed description of key rating drivers

### Key rating strengths

***Long track record of the company and experienced promoters***

MSIL incorporated in 1988, was promoted by Raipur based Mr. Ramanand Agarwal. Mr. Agarwal has more than four decades of experience in the iron and steel industry. Currently, the day to day affairs of the company is looked after by Mr. Rajesh Agrawal (Son of Mr. Ramanand Agrawal) along with the support from a team of experienced professionals.

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



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***Strategic location of the plant***

The manufacturing facilities of MSIL enjoys logistical advantage due to their strategic location in Raipur, Chhattisgarh with availability of raw material like sponge iron, steel scrap and well connectivity to road/ rail leading to cost effectiveness.

***Improvement in financial performance in FY19; albeit moderation during H1FY20***

The Total Operating Income (TOI) of MSIL registered a y-o-y growth of ~53% during FY19 at Rs.467.29 crore. The increase in top line was mainly driven by better realization coupled with improved sales volume. However the group reported lower PBILDT margin of 5.29% during FY19 as against 7.54% during FY18 mainly on account of increase in the prices of raw materials. This apart the operating margin was also impacted due to writing off bad debts amounting to Rs.3.54 crore during FY19. The PAT levels however remained satisfactory and improved to Rs.6.10 crore in FY19 from Rs.2.53 crore in FY18. Gross Cash Accruals (GCA) improved and remained satisfactory at Rs.12.06 crore as against debt repayment obligation of Rs.3.75 crore in FY19 (including Rs.2.20 crores as redemption of preference shares).

On a half yearly basis, MSIL reported TOI of Rs.179.84 crore in H1FY20 as against Rs.227.81 crore in H1FY19. The PBILDT and PAT margins witnessed moderation to 4.01% and 1.65% in H1FY20 as against 5.46% and 1.82% in H1FY19. The fall in sales is mainly a due to lower sales realization.

***Moderate debt coverage indicators***

Capital Structure continued to remain moderate with improvement in the overall gearing ratio from 1.95 times as on March 31, 2018 to 1.78 times as on March 31, 2019. The improvement in overall gearing is on the back of gradual repayment of term debt coupled with accretion of profit to reserve. Total Debt/GCA also improved to 10.24 times in FY19 from 12.09 times during FY18.

**Key Rating Weakness**

***Client concentration risk***

The exposure to PSUs (i.e. BHEL, MAHAGENCO, MSPDCL etc.) has decreased during latter half of FY19 and H1FY20 due to low tenders being floated by the PSUs. Accordingly, MSIL is exposed to high customer concentration risk which has gradually increased from 25% in FY18 to 38% in FY19 and 42% in H1FY20.

***High exposure to group companies***

The company has significant exposure to its group companies in the form of investments, loans and advances to its group companies amounting to Rs.34.78 crores as on March 2019 (accounting for nearly 50% of the net worth as on March 31, 2019 as against 73% of the net worth as on March 2018). The company procures a major portion of its sponge iron requirement from its group/ associate companies and also sells the finished goods i.e. blooms/billets to its associate concern Abhishek Steel Industries Limited (ASIL). After adjusting for exposure to group companies, adjusted overall gearing works out to be 3.57x as on March 31, 2019 (7.17x as on March 31, 2018).

***Partial exposure to volatility in the prices of raw materials***

Raw material (sponge iron/scrap) is the major cost driver constituting about 78% of the cost of sales in FY19. The prices of its raw materials are highly volatile in nature and any upward movement in the prices of the raw material without any corresponding movement in the finished goods prices may adversely affect the profitability of the company.

***Low capacity utilization***

The capacity utilization of the rolling mill and melting shop (MSIL) continued to remain low at 50% and 48% respectively in FY19. It further moderated to 43% and 40% respectively during H1FY20.

***Cyclicality associated with the steel sector characterized by intense competition***

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. It is also characterized by high degree of fragmentation due to the presence of numerous unorganized players. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers.

***Liquidity Analysis: Adequate***

The liquidity position of the company remained moderate characterized by average utilization of the working capital at ~69% during the past twelve months ending October 2019. The company has written off debtors to the tune of Rs.3.55 crore during FY19. Accordingly, the operating cycle of the company reduced to 59 days in FY19 as against 80 days in FY18. This apart the company has cash and bank balance of Rs.4.39 crores as on March 31, 2019 (Rs.5.11 crore as on March 31, 2018).

**Analytical approach:** Standalone

**Applicable criteria:**

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Criteria for Short term Instruments

**About the Company**

Mahamaya Steel Industries Limited (MSIL) was incorporated in 1988, by Mr. Ramanand Agrawal as the flagship company of the Raipur-based Mahamaya Group. MSIL has production facilities for billets/blooms and structural steel products with annual production capacities of 205,000 metric tonne (MT) and 174,250 MT, respectively. This apart the company has a gas plant with an annual production capacity of 900,000 cubic metre (CuM). The company manufactures heavy and light steel structural products such as joists, angles, beams, channels etc. The products are sold under the brand name "MAHAMAYA". The day to day affairs of the company is looked after by Mr. Rajesh Agrawal along with the support from a team of experienced professionals.

**Financial Performance of the company**

(Rs. Cr)

| *For the period ended / as at Mar.31,* | *2017 (12m, A)* | *2018 (12m, A)* | *2019 (12m, A)* |
|---|---|---|---|
| **Working Results** | | | |
| Net Sales | 253.66 | 298.12 | 463.90 |
| Total Operating income | 255.44 | 300.92 | 467.29 |

| | | | |
|---|---|---|---|
| PBILDT | 18.01 | 22.69 | 24.74 |
| Interest | 11.15 | 11.58 | 11.19 |
| Depreciation | 5.98 | 6.69 | 6.33 |
| PAT | 2.54 | 2.53 | 6.10 |
| Gross Cash Accruals | 8.07 | 10.21 | 12.06 |
| **Financial Position** | | | |
| Equity Share Capital | 13.57 | 13.57 | 13.57 |
| Net Worth | 60.70 | 63.30 | 69.45 |
| Total capital employed | 177.15 | 186.82 | 192.92 |
| **Key Ratios** | | | |
| ***Growth(%)*** | | | |
| Growth in Total income | -18.16 | 17.81 | 55.28 |
| Growth in PAT | -116.64 | -0.15 | 140.87 |
| ***Profitability(%)*** | | | |
| PBILDT/Total Op. income | 7.05 | 7.54 | 5.29 |
| PAT / Total income | 0.99 | 0.84 | 1.31 |
| ROCE | 7.52 | 9.51 | 10.65 |
| ***Solvency(times)*** | | | |
| Long Term Debt Equity ratio | 1.01 | 0.95 | 0.84 |
| Overall gearing ratio | 1.92 | 1.95 | 1.78 |
| Interest coverage (PBILDT/Interest) | 1.62 | 1.96 | 2.21 |
| Term debt/Gross cash accruals(years) | 7.59 | 5.86 | 4.83 |
| Total debt/Gross cash accruals(years) | 14.44 | 12.09 | 10.24 |
| ***Liquidity(times)*** | | | |
| Current ratio | 1.17 | 1.26 | 1.25 |
| Quick ratio | 0.63 | 0.60 | 0.39 |
| ***Turnover(days)*** | | | |
| Average collection period | 44 | 30 | 16 |
| Average creditors | 6 | 48 | 40 |
| Average inventory | 59 | 66 | 60 |
| Operating cycle | 96 | 48 | 35 |

A- Audited NA: Not Applicable NM: Not Meaningful

**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 - LT-Cash Credit | - | - | - | 46.00 | CARE BBB-; Stable |
| Term Loan-Long Term | - | - | June, 2024 | 3.23 | CARE BBB-; Stable |
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 20.00 | CARE BBB-; Stable / CARE A3 |
| Fund-based - LT-Proposed fund based limits | - | - | - | 7.50 | CARE BBB-; Stable |

**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 - LT-Cash Credit | LT | 46.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (19-Dec-18) | 1)CARE BB+; Stable (27-Feb-18) 2)CARE BB+; Stable (08-Feb-18) | - |
| 2. | Term Loan-Long Term | LT | 3.23 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (19-Dec-18) | 1)CARE BB+; Stable (27-Feb-18) | - |
| 3. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 20.00 | CARE BBB-; Stable / CARE A3 | - | 1)CARE A3 (19-Dec-18) | 1)CARE A4+ (27-Feb-18) | - |
| 4. | Fund-based - LT-Proposed fund based limits | LT | 7.50 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (19-Dec-18) | 1)CARE BB+; Stable (27-Feb-18) | - |

***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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

***(This follows our Press Release for the entity published on December 27, 2019)***

**Annexure-3: Details of Rated Facilities**

**Long-term facilities**

**1.A. Secured Rupee Term Loan** (Rs. crore)

| Sr. No. | Name of Bank | Amount (Rs. Crore) | Remarks | Debt Repayment Terms |
|---|---|---|---|---|
| 1. | UCO Bank | 1.23 | Outstanding | 84 monthly installments ending on June 2024 |
| 2. | Andhra Bank | 1.99 | Outstanding | |
| | **TOTAL** | **3.23** | | |

**1.B. Fund Based Limits** (Rs. crore)

| Sr. No. | Name of Bank | Cash Credit | Total fund-based limits |
|---|---|---|---|
| 1 | UCO Bank | 25.30 | 25.30 |
| 2 | Andhra Bank | 20.70 | 20.70 |
| 3 | Proposed | 7.50 | 7.50 |
| | **TOTAL** | **53.50** | **53.50** |

**Total Long-term facilities (1.A + 1.B) = Rs.56.73 crore**

**2. Long Term/Short Term Bank facilities**

**2.A. Non fund based limits**

| Sr. No. | Name of Bank | LC/BG | Total non-fund-based limits |
|---|---|---|---|
| 1 | UCO Bank | 11.00 | 11.00 |
| 2 | Andhra Bank | 9.00 | 9.00 |
| | **TOTAL** | **20.00** | **20.00** |

**Total Long-term /Short Term facilities (2.A) = Rs.20.00 crore**

**Total facilities (1 + 2) = Rs.76.73 crore**


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