No. CARE/KRO/RR/2021-22/1138

Shri Mr. Ramanand Agrawal
Chairman
Mahamaya Steel Industries Limited
B/8-9, Sector-C, Sarora,
Urla Industrial Complex, Raipur, Chhattigarh
Raipur, Chattisgarh - 493221

December 10, 2021

Dear Sir,

Credit rating of bank facilities

Please refer to our letter dated November 30, 2021, on the above subject.

1. The rationale for the ratings is attached as an **Annexure-I**.

2. 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 December 13, 2021, 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,

Punit Singhania

Punit Singhania
Assistant Director

Encl.: As above

Annexure 1

CARE Ratings Limited

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Rating Rationale
Mahamaya Steel Industries Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	46.01 (Reduced from 48.71)	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 Bank Facilities	**66.01 (Rs. Sixty-Six Crore and One Lakhs Only)**		

**Details of 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, improvement in financial performance of the company during H1FY22 (refers to the period from April 1 to September 30) despite moderation in FY21 on account of Covid-19 pandemic and moderate debt coverage indicators.

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

Key Rating Sensitivities

Positive Factors

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

Negative Factors

- Deterioration in the financial performance in the ensuing quarters coupled with moderation in the overall gearing ratio and debt coverage indicators beyond current levels (FY21)

P. S.

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

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.

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 H1FY22, albeit deterioration in FY21 and low profitability margins

The Total Operating Income (TOI) of the company registered a y-o-y de-growth of ~30% during FY21 at Rs. 251.36 crore from Rs. 358.38 crore in FY20. The decrease in top line was mainly due to decline by volume by about 30% on account of COVID-19 pandemic amidst increase in average sales realisation by about 8%. However, the PBILDT margin increased to 5.21% in FY21 (4.58% in FY20) despite increase in raw material cost. The company benefited out of carrying low cost inventory from previous fiscal (FY20) coupled with decline in the employee cost and other administrative expenses. Further, the PAT declined to Rs.0.55 crore in FY21 as against Rs.3.25 crore in FY20. The company earned a GCA of Rs. 5.53 crore (GCA of Rs.5.86 crore in FY20) as against debt repayment obligation of Rs.1.20 crore in FY21. Apart from this, the company redeemed preference share capital amounting Rs.2.56 crore through equity infusion of Rs.12 crore.

In H1FY22, the company's operating income improved substantially to Rs.216.24 crore and PAT to Rs.1.19 crore as against operating income of Rs.83.56 crores and net loss of Rs.2.81 crore in H1FY21, owing to improvement in demand and sales realizations. However, profitability margins continued to remain at lower levels (PBILDT margin: 3.35% & PAT margin: 0.55%).

Moderate debt coverage indicators

Capital Structure continued to remain moderate with slight improvement in the overall gearing ratio from 1.39x as on March 31, 2020 to 1.21 times as on March 31, 2021. The improvement in overall gearing, despite an increase in debt through GECL loans of Rs.5.36 crore during the year, was on the back of equity infusion of Rs.12 crore during FY21 by the promoters. The TDGCA moderated to 18.21 times as on March 31, 2021 as against 17.27 times as on March 31, 2020 on account of decline in GCA in FY21.

The gearing ratio improved to 0.94x as on September 30, 2021 owing to lower working capital utilisation led by improved revenues and cash flows.

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Key Rating Weaknesses

Low capacity utilization

The capacity utilization of the rolling mill and melting shop continued to remain low at 31.68% and 23.72% in FY21 as against 42.58% and 52.60% in FY20 respectively, majorly owing to Covid-19 induced lockdowns and resultant dip in demand. However, the capacity utilization of MS Angle/ channel/joint/beam improved to 33.30% whereas for bloom/billet it improved to 39.05% respectively during Q1FY22 with improvement in demand. Further the oxygen/nitrogen plant operated at 17.30% capacity in FY21 as compared to 21.88% in FY20 (21.30% in Q1FY22).

Client concentration risk

The company continues to have high customer concentration with top 10 customers contributing ~60% of the total revenues in FY21 (as against ~40% in FY20).

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.33.08 crore as on March 31, 2021 (accounting for nearly 38.55% of the net worth as on March 31, 2021, as against 43.91% of the net worth as on March 2020). The company procures a major portion of its sponge iron requirement from its group/ associate companies namely Devi Iron and Power Private Limited in which the company is also a 50% shareholder. After adjusting for exposure to group companies and stressed receivables of Rs.2.33 crore (ongoing litigation against 3 debtors), adjusted overall gearing works out to be 1.01x as on March 31, 2021 (1.28x as on March 31, 2020).

Partial exposure to volatility in the prices of raw material

Raw material (sponge iron/scrap) is the major cost driver constituting about 79% of the cost of sales. 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.

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.

P. S.

Outlook on the industry

Domestic steel production and consumption remained subdued in Q2FY22 due to the second wave of Covid-19 pandemic imposed lockdowns, the onset of the monsoon season affecting construction activities and the global chip shortage (semi-conductor shortage) affecting demand from the auto sector. However early signs of pick up in overall demand for steel is seen with increased vaccination coverage and lockdown restrictions gets less stringent, demand from the consumer goods segment is likely to witness growth for the festive season and government spending on infrastructure development is expected to pick up. Therefore, with pickup in government's infrastructure spending and Q4 being the strongest quarter seasonally for the steel industry, H2FY22 is expected to be better than H1FY22 for the steel industry.

Liquidity Analysis: Adequate

The company earned a GCA of Rs. 5.53 crore (GCA of Rs.5.86 crore in FY20) as against debt repayment obligation of Rs.1.20 crore in FY21. Apart from this, the company redeemed preference share capital amounting Rs.2.56 crore. During FY21, the company has infused equity to the tune of Rs.12 crore. Adequate liquidity is characterized by average working capital limits utilisation of 45.46% for 12 months ending October 31, 2021. The company had free cash and cash equivalents of Rs.4.03 crore and 'Nil' utilisation of its CC limits of Rs.46 crores as on October 31, 2021. MSIL has a debt repayment obligation of Rs.6.14 crore (including redemption of preference share capital and repayment of COVID-19 loan) in FY22 which is expected to be met out of cash sufficient accruals.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
Complexity level of rated instrument
Liquidity analysis for non-financial sector entities
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Steel Companies
Financial ratios – Non-Financial Sector
Criteria for Short term Instruments

P. S.

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:

For the Period Ended / as at March 31,	2019	2020	2021
	(12m, A)	(12m, A)	(12m, Prov.)
Working Results			
Net Sales	463.90	355.68	250.12
Total Operating Income	467.29	358.38	251.36
PBILDT	24.74	16.40	13.08
Interest	11.19	9.07	6.46
Depreciation	6.33	6.10	5.54
PBT	7.21	1.23	1.27
PAT	6.10	3.25	0.55
PAT (After Minority Interest)	6.10	3.25	0.55
Gross Cash Accruals	12.06	5.86	5.53
Financial Position			
Equity Capital	13.57	13.57	14.77
Net-Worth	69.45	72.79	85.52
Total Capital Employed	175.23	171.81	192.85
Key Ratios			
Growth			
Growth in Total Income (%)	55.28	-23.31	-29.86
Growth in PAT (after deferred tax) (%)	140.87	-46.74	-83.06
Profitability			
PBILDT/Total Op. Income (%)	5.29	4.58	5.21
PAT (after deferred tax)/Total Income (%)	1.31	0.91	0.22
ROCE (%)	10.67	5.99	4.33
Solvency			
Debt Equity Ratio (times)	0.84	0.73	0.68
Overall Gearing Ratio (times)	1.78	1.39	1.21
Interest Coverage (times)	2.21	1.81	2.03
Term Debt/Gross Cash Accruals (years)	4.83	9.04	10.47
Total Debt/Gross Cash Accruals (years)	10.24	17.27	18.71

For the Period Ended / as at March 31,	2019	2020	2021
	(12m, A)	(12m, A)	(12m, Prov.)
Term Debt/PBILDT (years)	2.36	3.23	4.42
Total Debt/PBILDT (years)	4.99	6.17	7.90
Liquidity			
Current Ratio (times)	1.28	1.31	1.54
Quick Ratio (times)	0.40	0.45	0.58
Turnover			
Average Collection Period (days)	16	17	27
Average Inventory Period (days)	60	78	103
Average Creditors Period (days)	40	41	36
Operating Cycle (days)	35	55	93

A: Audited

Status of non-cooperation with previous CRA: ICRA has placed the rating at ICRA B+, Stable/A4 Issuer Not Co-operating vide press release dated September 16, 2020.

Any other information: Not Available

Rating History for last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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		-	-	-	0.01	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	20.00	CARE BBB-; Stable / CARE A3

P. S.

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	46.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Sep-20)	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)
2	Term Loan-Long Term	LT	0.01	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Sep-20)	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	20.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (30-Sep-20)	1)CARE BBB-; Stable / CARE A3 (27-Dec-19)	1)CARE A3 (19-Dec-18)
4	Fund-based - LT-Proposed fund based limits	-	-	-	-	-	1)CARE BBB-; Stable (27-Dec-19)	1)CARE BBB-; Stable (19-Dec-18)

** Long Term / Short Term*

Annexure-3: Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	UCO Bank	0.01	84 monthly installments ending on March 2023
2.	Andhra Bank	0.01	
	Total	**0.02**	

P. S.

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	UCO Bank	25.30	Sanctioned and tied up
2.	Andhra Bank	20.70	
	Total	**46.00**	

Total Long Term Facilities : Rs.46.02 crore

2. Long Term / Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	UCO Bank	11.00
2.	Andhra Bank	9.00
	Total	**20.00**

Total Long Term / Short Term Facilities : Rs.20.00 crore

Total Facilities (1.A+1.B+2.A) : Rs.66.02 crore

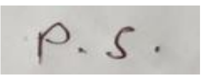
Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Annexure-5: Detailed explanation of covenants of the rated instrument / facilities: NA

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@careedge.in for any clarifications.



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(This follows our brief rationale for the entity published on December 06, 2021)

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.

P.S.

Disclaimer
CARE’s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE’s ratings do not convey suitability or price for the investor. CARE’s ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE’s rating. 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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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