

August 16, 2023

M S Metals & Steels Pvt Ltd: [ICRA]A-(Stable)/[ICRA]A2+; assigned

Summary of rating action

Instrument [^]	Current Rated Amount (Rs. crore)	Rating Action
Fund based Limits- Cash Credit	25.00	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Total	25.00	

[^]Instrument details are provided in Annexure-1

Rationale

The ratings assigned to the bank facilities of M. S. Metals & Steels Private Limited (MSM) draw comfort from the extensive experience of the promoters and the established presence of the MTC Group in the ferrous and non-ferrous scrap trading industry. The Group, which is present in the industry since 1974 through various Group concerns, has established relationships with its customers and suppliers, which help the company in receiving regular and repeat orders. The ratings also derive comfort from healthy financial risk profile of MSM, marked by comfortable capital structure with below unity gearing and satisfactory debt coverage indicators.

MSM reported a strong YoY revenue growth of 60% in FY2023 at Rs. 3,181.8 crore, driven by a 50% YoY growth in sales volumes, led by improved demand in the automobile segment, which is its major end-user segment. While MSM's revenues and profits remain exposed to the cyclicity associated with the automobile segment, some comfort can be drawn from the comfortable demand prospects in the passenger vehicle segment in FY2024, led by steady demand in the market. The liquidity position of the company also remains adequate, supported by unutilised bank lines of Rs. 140.4 crore as on April 30, 2023.

The strengths are partially offset by the thin operating profit margin (OPM) of MSM due to the trading nature of business (which accounted for 55-60% of revenues in FY2023), limited value addition in the manufacturing segment, and intense competition in the steel scrap trading segment. ICRA notes that MSM is in the process of setting up a rolling mill for manufacturing of TMT bars at Kunnigal, at a total capex of Rs. 45 crore to be incurred over FY2024 and FY2025. With the increase in the share of the manufacturing segment, the overall margins are expected to improve, but the same would remain at a moderate level. Its operations also have moderately high working capital requirements, driven by the high receivable period and with very limited credit period available from suppliers, with advance payments made to most of them.

The Stable outlook on MSM's ratings reflects ICRA's opinion that the company's revenues and profits would be supported by the healthy demand in the automobile segment, its main end-user segment. This coupled with MSM's controlled working capital cycle and staggered capex plans would limit its dependence on external debt and adequately support the credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in trading business – The company benefits from the extensive experience of promoters. Mr. Narendra Maganlal Mehta, Mr. Manoj Maganlal Mehta, and Mr. Sanjay Maganlal Mehta have been involved in the business for more than three decades.

Long track record of operations; diversified and reputed customer profile – MSM was incorporated by the Mehta family and is a part of the MTC Group. The MTC Group started trading in metal scrap in 1972 and thus its management has a long presence in this industry, which has helped the company maintain established relationships with reputed customers and suppliers. MSM serves a wide range of clientele spread across foundries, largely catering to the automobile sector and primary steel producers like Tata Steel Limited, Jindal Stainless Limited, Kirloskar Ferrous Industries Limited, among others. The customer base remained diversified with the top-10 customers contributing 39% to the operating income in FY2023.

Healthy financial risk profile – MTC reported a YoY growth of 60% in its revenues, led by a 70% YoY growth in its trading division and a 44% YoY growth in its manufacturing division. The financial risk profile stood healthy, marked by a robust capital structure owing to the strong net worth position of the company, which stood at Rs. 427.2 crore as on March 31, 2023. The coverage indicators also remained healthy with a total debt to OPBDTIA of 2.3 times as on March 31, 2023. Going forward, aided by a limited capex plan and a steady growth in revenues and profits, the financial risk profile is expected to remain comfortable in the near term.

Credit challenges

Thin profit margins – Owing to the trading nature of business, limited value addition in the manufacturing segment and intense competition in the steel scrap trading segment, the profit margins of the company stood thin with OPBDITA and PAT margin of 5.5% and 2.1%, respectively in FY2023 (as per provisional estimates). ICRA notes that MSM is in the process of setting up a rolling mill for manufacturing TMT bars at Kunnigal, at a total capex of Rs. 45-50 crore, to be incurred over FY2024 and FY2025. With the increase in the share of the manufacturing segment, the overall margins are expected to improve, though will remain moderate on an overall basis.

Cyclicality in end-user demand and intense competition in the steel scrap trading segment – The steel scrap trading industry is very competitive due to its low entry barriers. Moreover, the domestic steel industry is cyclical in nature, which impacts the cash flows of steel scrap traders also, including MSM. The rebar manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and the consequent high competition, which limits the pricing flexibility of the players. As the major portion of MSM's revenues is generated via sale to automobile foundries, the company's revenues and profitability are directly susceptible to the demand conditions in the automobile industry.

Moderately high working capital requirements – The net working capital vis-à-vis the operating income stood at 17% as on March 31, 2023 which reduced from 26% as on March 31, 2022, led by debtor realisation. The clientele is spread across foundries and primary steel producers, which enjoy a credit period of around 30-60 days. Against that, the company receives a credit period of 5-10 days and in case of original equipment manufacturers (OEMs), advance payment is made by the company.

Liquidity position: Adequate

MSM's liquidity position is adequate, supported by healthy cash flows (with expected retained cash flows in the range of Rs. 35-40 crore in FY2024) and undrawn fund-based limits of Rs. 61.4 crore as on April 30, 2023. The company has scheduled debt repayments of around Rs. 11.9 crore each in FY2024 and FY2025 and is estimated to incur ~Rs. 45 crore of capital expenditure (capex) towards setting up a rolling mill for manufacturing of TMT bars in the next two years (FY2024 and FY2025). This is expected to be adequately funded in a debt to internal accrual ratio of 3:1.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company can significantly increase its revenues and profitability, leading to healthy credit metrics and better working capital management on a sustained basis. Improvement in the interest cover to above 5 times on a sustained basis would be a positive factor.

Negative factors – Pressure on the ratings could arise if any sharp weakening in the revenues and profit margins affects the debt coverage metrics of MSM. Any large debt-funded capex or a stretch in the working capital cycle, leading to sustained moderation in the financial risk profile and liquidity position, would also be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metals
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on standalone financial statements of the rated entity.

About the company

MSM was incorporated in 2004 by the Mehta family of the MTC Group. The company is involved in trading of ferrous and non-ferrous scrap and caters to the metal scrap requirements largely of automobile foundries and steel mills in southern India, mainly in Bangalore, Hyderabad, and Chennai. It also manufactures TMT bars, billets, and sponge iron with an annual capacity of 1,80,000 metric tonnes (MT), 2,21,400 MT and 1,05,000 MT per annum, respectively as on March 31, 2023.

Key financial indicators (Standalone)

	FY2022 (Audited#)	FY2023 (Provisional*)
Operating Income (Rs. crore)	1,992.1	3,181.8
PAT (Rs. crore)	89.4	67.7
OPBDIT/OI (%)	8.8%	4.5%
PAT/OI (%)	4.5%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	-
Total Debt/OPBDIT (times)	2.3	2.3
Interest Coverage (times)	4.9	3.2

Source: Financial statements of MSM and ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA's calculations; *I-GAAP, #INDAS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2021	Date & Rating in FY2020
1	Fund based limits- Cash Credit	Long-term/Short-term	25.00	-	August 16-2023 [ICRA]A-(Stable)/[ICRA]A2+	-	-	-
					-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based limits- Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Fund based limits- Cash Credit	-	-	-	25.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: MSM

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis: Not applicable.

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