September 15, 2022

Amalgam Steel & Power Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	128.56	100.00	[ICRA]A-(Stable); reaffirmed
Fund Based Limits	117.55	306.00	[ICRA]A-(Stable); reaffirmed
Long Term - Interchangeable**	(67.55)	0.00	-
Non Fund-Based Facilities	0.00	100.00	[ICRA]A2+; reaffirmed
Short Term Loans**	(67.00)	(306.00)	[ICRA]A2+; reaffirmed
Total	**246.11**	**506.00**	

**Instrument details are provided in Annexure-1; **sub-limit of fund based limit*

Rationale

Following the recent acquisition of Crest Steel and Power Private Limited (CSPPL) by Amalgam Steel Private Limited (ASPL) and Amalgam Steel & Power Limited (AS&PL), based on management feedback, ICRA understands the Group's strategic intent is to operate the three steelmaking hubs as a single unit, having intercompany fungibility of cash flows. The move will help leverage the synergies associated with common procurement systems, shared marketing/ distribution channels, product integration across the steelmaking value chain, and pooling of management/ technical resources. Consequently, for arriving at the ratings, ICRA has now taken a consolidated view of ASPL, AS&PL and CSPPL, referred to as the Group, given the common ownership/management and the close financial and operational linkages among these companies. ICRA has also factored in the proposed acquisition of another secondary steel asset by AS&PL through the IBC[1] route for which it has been declared the H1 bidder by the Committee of Creditors (CoC), though the NCLT[2] order is pending.

The reaffirmation of the ratings factors in the extensive experience of the promoters, who have around five decades of experience in iron ore mining and steel business. The promoter groups operate iron ore mines in Odisha and have approval to cumulatively mine 4.2 million tonnes (mt) of iron ore, annually. The ratings also consider the three acquisitions done in the recent past, which include ASPL, AS&PL and CSPPL, consummated at competitive capital costs. The same could help it record healthy profitability metrics across business cycles. The Group has also demonstrated a successful track record of quickly turning around the operations of ASPL and AS&PL. The Group's ability to quickly ramp up the operations at optimum efficiency levels in CSPPL will be critical from the rating perspective and hence will remain a key rating monitorable. ASPL and AS&PL are both located in the same premises near Jamshedpur, in Jharkhand, which is in proximity to iron ore mines, thus ensuring regular supply of iron ore fines (key raw material for pellet manufacturing) and low transportation costs. The pellets manufactured by ASPL are consumed by AS&PL, which are used for making sponge iron and the balance is sold in the open market. AS&PL also has a railway siding, which enables it to procure imported thermal coal via railway from nearby ports, which reduces its overall freight costs substantially. Moreover, ICRA notes that CSPPL and the proposed acquisition (which is yet to be concluded) are in adjacent plots, which, along with the presence of a railway siding at CSPPL, will help bring in operational efficiencies and reduce freight cost for these two units. The ratings also draw comfort from the Group's established relationship with domestic banks and financial institutions, which imparts financial flexibility.

The ratings, however, remain constrained by the expected moderation of leverage indicators in FY2023 due to its sizeable inorganic growth strategy. The Group has acquired CSPPL (at an acquisition value of Rs. ~350 crore) in the current fiscal, which was financed by an external debt of Rs.200 crore and the balance from internal accruals. Besides, the Group has been declared

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[1] The Insolvency and Bankruptcy Code

[2] National Company Law Tribunal

as the winning bidder for the acquisition of another secondary steel asset, the financial closure of which is expected by the end of the current fiscal. While some portion of the acquisition will be financed through internal accruals, ICRA estimates that the balance would be funded through either drawdown of unutilised credit lines or tying up of fresh term debt. That said, as the production in CSPPL and the yet-to-be-acquired steel asset gradually ramps up, and the contours of the Group's common coal sourcing arrangement is finalised (helping unlock a sizeable amount of working capital), ICRA expects the Group's net external debt levels to gradually come down from the high level of FY2023. This would help improve its leverage indicators meaningfully from FY2024. The ratings also remain constrained by the exposure of the Group to the cyclicality inherent in the steel industry and susceptibility of the Group's profitability to the volatility in raw material prices and end-product realisations. The ratings also factor in the impact of 45% duty on export of iron ore pellets in May 2022, post which pellet prices have come under pressure in the domestic market. Although iron ore prices have also declined significantly due to the imposition of a 50% export duty, partly cushioning the decline in pellet prices, ICRA expects the current year gross contribution levels to moderate from the highs of FY2022, leading to a moderation in earnings for merchant pellet makers like ASPL. The ratings also remain constrained by the project execution risks associated with the planned expansion at CSPPL, to be incurred over FY2024 and FY2025, and the large advances extended by AS&PL to its holding company, which has adversely impacted the business return indicators.

The Stable outlook on the company's long-term rating reflects ICRA's opinion that the Group's credit profile will be supported by its prudent capital allocation policies notwithstanding the expected weakening of leverage indicators over the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The Group is promoted by Kolkata-based Atha and Misra Groups. The promoters have around five decades of experience in iron ore mining and steel business. Currently, they operate iron ore mines in Odisha and have approval to cumulatively mine 4.2 mt of iron ore, annually. Besides, they operate steel plants independently, having facilities to manufacture sponge iron, billets and rebars. Going forward, increased iron ore procurement from mines of Atha/Misra Groups, operated by Narbheram Power & Steel Private Limited (NPSPL) and Ghanshyam Misra & Sons (GMS), would reduce the freight costs further as these mines are located closer to ASPL's pellet plant.

Recent acquisitions done at competitive capital costs could help earn healthy profits across business cycles – The Group has made three acquisitions in the recent past, which include ASPL, AS&PL and CSPPL through the IBC process. ICRA draws comfort from the competitive acquisition prices for these assets, which in turn could help it earn healthy profitability metrics across business cycles.

Successful track record of turning around operations of acquired entities in the past – The Group has also demonstrated a successful track record of quickly turning around the operations of ASPL and AS&PL. The Groups ability to quickly ramp up operations at optimum efficiency level in CSPPL will be critical from the rating perspective and hence will remain a key rating monitorable.

Strong financial flexibility given the linkages with Atha and Misra Groups – The Group enjoys an established relationship with domestic banks and financial institutions given the linkages with Atha and Misra Groups. The Group has been able to refinance the bridge loans taken from related parties for ASPL/ AS&PL acquisitions, through bank financing at an attractive cost of debt.

Location-specific advantage of the plant – ASPL and AS&PL are both located in the same premises near Jamshedpur, in Jharkhand, which is in proximity to iron ore mines, thus ensuring regular supply of iron ore fines (key raw material for pellet manufacturing) and low transportation costs. The pellets manufactured by ASPL are consumed by AS&PL, which are used for making sponge iron and the balance is sold in the open market. AS&PL also has a railway siding, which enables it to procure imported thermal coal via railway from nearby ports and reduces its overall freight costs substantially. Besides, AS&PL's

proximity to rolling mills in Jharkhand and West Bengal provides it with a ready access to the end-user industries for the billets manufactured. Moreover, ICRA notes that CSPPL and the proposed acquisition (which is yet to be concluded) are in adjacent plots, which, along with the presence of a railway siding at CSPPL, will help bring in operational efficiencies and reduce freight cost for these two units.

Credit challenges

Leverage indicators expected to moderate going forward due to sizeable inorganic growth strategy – The Group has acquired CSPPL (acquisition value of Rs. ~350 crore) in the current fiscal, which was financed by a debt of Rs.200 crore and the balance through internal accruals. Besides, the Group has also been declared as the winning bidder for the acquisition of another secondary steel asset, the financial closure of which is expected by the end of the current fiscal. While some portion of the acquisition will be financed through internal accruals, ICRA estimates the balance to be funded through either drawdown of unutilised credit lines or tying up of fresh term debt. Consequently, the net external debt levels are expected to rise significantly in the current fiscal from the level of FY2022, leading to a weakening of the leverage indicators (expected Net external Debt/OPBDITA of around 3.2 times in FY2023 against 0.7 times in FY2022 and 0.2 times in FY2021) over the near term. However, notwithstanding the planned brownfield expansion[3] at CSPPL, as the production gradually ramps up in the two recent acquisitions, and the contours of the Group's common coal sourcing arrangement is finalised (helping unlock a sizeable amount of working capital), ICRA expects the Group's net external debt levels to gradually come down from the high level of FY2023. This in turn should help its leverage indicators improve meaningfully from FY2024 (expected net external Debt/OPBDITA of 2.1 times in FY2024 and 1.9 times in FY2025).

Exposed to cyclicality inherent in the steel industry – The Group is exposed to cyclicality inherent in the steel industry, which leads to volatility in revenue and cash flows for the industry players, including the Group. The cash flows and profitability of the company would remain volatile largely because of fluctuation in spreads emanating from the mismatch in price movement of raw materials and end products.

Export duty on pellet to moderate earnings from the pellet business – On May 21, 2022, the Government of India (GoI) imposed a steep 45% duty (from nil earlier) on export of iron ore pellet, post which pellet prices have come under pressure. Although iron ore prices have also declined significantly, partly cushioning the decline in pellet prices, ICRA expects the gross contribution level to reduce from the high of FY2022, leading to a moderation in FY2023 earnings for merchant pellet makers like ASPL.

Large advances extended by AS&PL to holding company affects business return indicators – AS&PL has extended large advances of around Rs.205 crore as on March 31, 2022 to its holding company, Transform Steel Private Limited, which adversely impacted the business return indicators.

Exposure to project execution risks associated with the planned expansion at CSPPL – The Group has a large-sized capex plan at the recently acquired CSPPL, where there is the potential of substantial unlocking of value for units, which were left unfinished by the erstwhile promoters. The project includes finishing the balance work towards completion of the unexecuted portion of the 1.2-mt-per-annum pellet plant, 0.23-mt-per-annum DRI unit and 40-MW captive power plant at an estimated outlay of around Rs.300 crore, to be incurred over FY2024 and FY2025. Thus, the Group would remain exposed to associated project execution risks over the medium term.

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[3] The DPR for the brownfield expansion at CSPPL is not yet finalized. ICRA has assumed a project cost of Rs. 300 crore in the base case

Liquidity position: Adequate

The Group's liquidity profile has been assessed as Adequate. The Group has repayment obligations of around Rs. 64 crore in FY2023. It is slated to generate retained cash flows of around Rs.180-190 crore, as per ICRA estimates, which can comfortably meet the scheduled debt repayment obligations. The ~Rs. 350-crore acquisition of CSPPL has already been closed through an acquisition loan of Rs. 200 crore, and mobilisation of on-balance sheet liquidity. The Group has also been declared as the winning bidder for the acquisition of another secondary steel asset, the financial closure of which is expected by the end of the current fiscal. While some portion of the acquisition will be financed through internal accruals, ICRA estimates the balance to be funded through either drawdown of unutilised credit lines or contraction of fresh term debt. The established relationship with domestic banks supports the Group's financial flexibility.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a healthy improvement in profitability and credit metrics on a sustained basis while maintaining a comfortable liquidity profile.

Negative factors – Pressure on the ratings may emerge in case of its inability to quickly turn around the operations of the recent acquisitions or a significant time/cost overrun in the upcoming planned expansion at CSPPL or any other large capex/investment, leading to the total net external debt-to-operating profit ratio remaining above 2.3 times on a sustained basis. The ratings could also come under pressure in case of any major cash outflow to related parties, resulting in a deterioration in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Rating Approach-Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	While earlier the ratings were based on the standalone financials of ASPL and AS&PL, the rating is now based on the consolidated view of ASPL, AS&PL, Crest Steel and Power Private Limited (CRPPL), which was recently acquired by ASPL and AS&PL. ICRA has also factored in the proposed acquisition of another secondary steel asset by AS&PL for which it has been declared the H1 bidder by the CoC. The basis for the consolidated view is the common management/ownership, business and financial linkages.

About the company

AS&PL (erstwhile Adhunik Alloys & Power Limited) was earlier a part of the Adhunik Group. It has a 2,31,000-metric-tonnes-per-annum (mtpa) sponge iron plant, 1,58,400-mtpa billet plant and 30-megawatt captive power plant near Jamshedpur in Jharkhand. AS&PL, along with three other Adhunik Group companies, viz. Adhunik Metaliks Limited, Orissa Manganese & Minerals Limited and Zion Steel Limited, were referred to the Kolkata bench of the National Company Law Tribunal (NCLT) in 2017. In the current year, ASPL acquired a 47.5% equity stake in CSPPL through the IBC route, while the balance 47.5% was held by AS&PL and 5% by a consortium of banks. The total consideration for the acquisition of CSPPL was ~Rs. 342 crore. CSPPL has a DRI plant of 0.23 mt per annum, a steel melt shop (SMS) of 0.07 mt per annum and a waste-heat recovery based captive power plant (CPP) of 12 MW. In addition, it has an unfinished capital-work-in-progress comprising a 1.2 mt-per-annum pellet plant, 0.23 mt-per-annum of DRI and 40 MW of CPP. TSPPL has a DRI plant of 0.19 mt per annum, SMS of 0.14 mt per annum, rolling mill of 0.12 mt per annum and CPP of 15.3 MW. The plants of CSPPL and TSPPL are located in Chhattisgarh.

Key financial indicators (Audited)

AS&PL	Standalone		Consolidated***	
	FY2021	FY2022^	FY2021	FY2022^
Operating Income (Rs. crore)	713.5	951.0	1,442.1	2,000.9
PAT (Rs. crore)	42.98	43.62	177.5	189.5
OPBDIT/OI (%)	10.4%	7.0%	17.3%	12.3%
PAT/OI (%)	6.0%	4.6%	12.3%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	0.6	0.7
Total Debt/OPBDIT (times)	2.8	3.2	2.3	3.3
Net External Debt/OPBDIT**	0.0	2.5	0.2	0.7
Interest Coverage (times)	3.9	6.0	5.3	7.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^Provisional; **Net external debt = Gross debt less cash & liquid investment balance less sub-debt in ASPL from Energia Steel Pvt Ltd on which 6% interest is partly accrued (only tax payable by Energia Steel Pvt Ltd on the 6% interest is remitted by ASPL)*

****Consolidation done by ICRA based on elimination of important inter-group transactions based on public disclosures*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Sep 15, 2022	Sep 29, 2021	Sep 7, 2020	Jul 25, 2019	May 27, 2019
1	**Term Loan**	LT	100.00	107.18*	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Fund Based Limits**	LT	306.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	**Long Term - Interchangeable**	LT	0.00	-	-	[ICRA]A- (Stable)	-	-	-
4	**Short Term Loans****	ST	(306.00)	-	[ICRA]A2+	[ICRA]A2+	-	-	-
5	**Non Fund-Based Facilities**	ST	100.00	-	[ICRA]A2+	-	-	-	-

*Amount in Rs. crore; *As on Mar 31, 2022; LT – Long Term; ST – Short Term; **sub-limit of fund-based limit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund Based Limits	Simple
Non Fund-Based Facilities	Very simple
Short Term Loans	Very 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, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	**Term Loans**	FY2020	NA	FY2026	100.00	[ICRA]A-(Stable)
NA	**Fund Based Limits**	NA	NA	NA	306.00	[ICRA]A-(Stable)
NA	**Short Term Loans****	NA	NA	NA	(306.00)	[ICRA]A2+
NA	**Non Fund-Based Facilities**	NA	NA	NA	100.00	[ICRA]A2+

Source: *Company; ** sub-limit of fund based limit+*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Amalgam Steel Private Limited	-	Full Consolidation
Crest Steel and Power Private Limited	-	Full Consolidation

Source: *Company*

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