

December 26, 2023

## Crest Steel and Power Private Limited: Ratings downgraded to [ICRA]BBB+ (Stable)/[ICRA]A2; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund based - Term Loans	-	460.00	[ICRA]BBB+ (Stable); assigned
Long-Term – Fund Based Limits – Cash Credit	100.00	100.00	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Short-Term – Non Fund-Based Facilities	-	50.00	[ICRA]A2; assigned
Short Term Loans**	(100.00)	(100.00)	[ICRA]A2; downgraded from [ICRA]A2+
<b>Total</b>	<b>100.00</b>	<b>610.00</b>	

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

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Amalgam Steel Private Limited (ASPL), Amalgam Steel & Power Limited (AS&PL) and Crest Steel and Power Private Limited (CSPPL), referred to as the Group. For arriving at its ratings, ICRA has noted the common management, along with the close financial and operational linkages among these companies. ICRA has also factored in the proposed acquisition of Topworth Steels and Power Private Limited (TSPPPL) by the Group, which is in the final leg of transaction closure post receipt of the NCLT order.

The ratings downgrade factors in the expected deterioration of leverage indicators of the Group from FY2025 and is likely to stay elevated at least till FY2026. The Group, which was already on a debt-funded growth phase since FY2023, starting with the acquisition of CSPPL, has further intensified its growth ambitions with a sizeable debt-funded brownfield expansion planned at CSPPL and the proposed debt-funded acquisition of TSPPPL, which is likely to be concluded in the coming months. The cumulative outlay towards the brownfield expansion planned at CSPPL and the proposed acquisition of TSPPPL stands at around Rs.870 crore, which is higher by almost 55% than the earlier estimate factored in by ICRA at the time of the last rating exercise. ICRA has also noted the elevated working capital requirements of the Group (NWC/OI<sup>1</sup> of 39% and 25% in FY2022 and FY2023, respectively), which, along with the sizeable increase in long-term advances made in FY2023, primarily on account of investments made in inter-corporate deposits, has led to high borrowing dependence and constrained business return indicators. In FY2023, aggressive debt funded expansion plans, along with the contraction in earnings due to input cost pressure, led to the Group's Gross External Debt/OPBDITA significantly deteriorating to 4.2 times (Net External Debt/OPBDITA of 3.7 times). While the expected recovery in earnings in FY2024 is likely to moderate the Gross External Debt/OPBDITA to ~2.5 times (Net External Debt/OPBDITA of ~2.2 times) in the current fiscal, ICRA expects the Group's gross external debt levels in FY2025 to be higher by 70% than the earlier estimates. This is expected to again put pressure on the leverage indicators in the next two fiscals, with Gross External Debt/OPBDITA deteriorating to 2.8-3.2 times (Net External Debt/OPBDITA between 2.5-2.9 times) in FY2025 and FY2026, which is significantly weaker than ICRA's earlier estimates of 1.3-2.1 times (Net External Debt/OPBDITA between 1.2-1.9 times) over the same period.

The ratings also remain constrained by the Group's exposure to the cyclical nature inherent in the steel industry and susceptibility of the Group's profitability to the volatility in raw material prices and end-product realisations. While these ongoing expansion plans carry the potential of higher future earnings, sizeable borrowing dependence makes the company less resilient to

<sup>1</sup> Net working capital by operating income ratio

withstand industry downcycles. The ratings also remain constrained by the project execution risks associated with the planned expansion at CSPPL, to be incurred over FY2024-FY2026, and the large advances extended by the Group to its holding company, which has adversely impacted the business return indicators.

The ratings, however, continue to positively factor in the extensive experience of the promoters, who have around five decades of experience in iron ore mining and steel businesses. The promoter groups operate iron ore mines in Odisha and have approval to cumulatively mine 4.2 million tonnes per annum (mtpa) of iron ore, annually. Besides, they operate steel plants independently, having facilities to manufacture sponge iron, billets and rebars. The ratings also consider the acquisitions made in the recent past, which include ASPL, AS&PL and CSPPL, consummated at competitive capital costs, which supports the business return indicators. The bidding value for TSPPL, which is in the final leg of transaction closure, has also been competitive. The Group has also demonstrated a successful track record of quickly turning around the operations of ASPL, AS&PL and CSPPL. The ratings also factor in the location-specific advantages of the Group's plants, which aid in operational efficiency.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group's near-term earnings will be supported by the healthy steel consumption growth coupled with stable key raw material prices.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters** – The Group is promoted by the Kolkata-based Atha and Misra Groups. The promoters have around five decades of experience in iron ore mining and steel businesses. At present, they operate iron ore mines in Odisha and have approval to cumulatively mine 4.2 mtpa of iron ore, annually. Besides, they operate steel plants independently, having facilities to manufacture sponge iron, billets and rebars.

**Recent acquisitions made at competitive capital costs support business return indicators** – The Group has made three acquisitions in the recent past, which include ASPL, AS&PL and CSPPL through the IBC process, consummated at competitive capital costs. The Group is also in the final stage of transaction closure for the proposed acquisition of TSPPL, the bidding value for which has also been competitive. ICRA draws comfort from the competitive acquisition prices for these assets, which support the business return indicators.

**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, AS&PL and CSPPL. The Group's ability to quickly ramp up operations at optimum efficiency level in TSPPL, which is in the final stage of acquisition, will be critical from the rating perspective and hence will remain a key rating monitorable.

**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 TSPPL are located 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 deteriorate from FY2025 due to sizeable debt-funded growth plans** – The Group, which was already on a debt-funded growth phase since FY2023, starting with the acquisition of CSPPL, has further intensified its growth ambitions with a sizeable debt-funded brownfield expansion planned at CSPPL and the proposed debt-funded acquisition of TSPPL, which is likely to be concluded in the coming months. The cumulative outlay towards the brownfield expansion planned at CSPPL and the proposed acquisition of TSPPL stands at around Rs.870 crore, which is higher by almost 55% than the earlier level estimated by ICRA at the time of the last rating exercise. The higher outlay towards the growth capex, elevated working capital requirements of the Group and the sizeable increase in long-term advances made in FY2023, primarily on account of investments made in inter-corporate deposits, led to high borrowing dependence and constrained its business return indicators. In FY2023, aggressive debt funded expansion plans, along with the contraction in earnings due to input cost pressure, led to the Group's Gross External Debt/OPBDITA significantly deteriorating to 4.2 times (Net External Debt/OPBDITA of 3.7 times). While the expected recovery in earnings in FY2024 is likely to moderate the Gross External Debt/OPBDITA to ~2.5 times (Net External Debt/OPBDITA of ~2.2 times) in the current fiscal, ICRA expects the Group's gross external debt levels in FY2025 to be higher by 70% than the earlier estimates. This is expected to again put pressure on the leverage indicators in the next two fiscals, with Gross External Debt/OPBDITA deteriorating to 2.8-3.2 times (Net External Debt/OPBDITA between 2.5-2.9 times) in FY2025 and FY2026, which is significantly weaker than ICRA's earlier estimates of 1.3-2.1 times (Net External Debt/OPBDITA between 1.2-1.9 times) over the same period.

**Exposed to cyclicity inherent in the steel industry** – The Group is exposed to cyclicity 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 Group would remain volatile largely because of fluctuation in spreads emanating from the mismatch in price movement of raw materials and end products.

**Large advances extended by the Group to the holding company affects business return indicators** – The Group has extended large advances of around Rs.176 crore as on March 31, 2023 to one of its holding companies, Transform Steel Private Limited, which adversely impacted the business return indicators.

**Exposed 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 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 1.5-mt-per-annum pellet plant, 0.25-mt-per-annum DRI unit, 0.08-mt-per-annum billet unit and 35-MW captive power plant at an estimated outlay of around Rs.610 crore (includes margin money for working capital), to be incurred over FY2024-FY2026. Thus, the Group would remain exposed to associated project execution risks over the medium term.

## Liquidity position: Adequate

The Group's liquidity profile has been assessed as **Adequate** with undrawn working capital lines of around Rs.260 crore as of end-September 2023 and healthy retained cash flows of Rs.140-145 crore expected in the current fiscal, against which it has repayment obligations of around Rs.126 crore. Notwithstanding the Group's growth plans, for which the long-term funding is already in place (includes upfront promoter margins as stipulated in bank sanction letters), the Group's liquidity would continue to remain adequate, going forward.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company is able to complete the ongoing expansion plan at CSPPL within the budgeted time and costs and quickly ramp up operations, leading to commensurate increase in earnings and improvement in credit metrics on a sustained basis, while maintaining a comfortable liquidity profile. Specific metric that can lead to a rating upgrade includes Total external debt/OPBDITA of less than 2.3 times on a sustained basis.

**Negative factors** – Pressure on the ratings may emerge in case of a significant time/cost overrun in the upcoming planned expansion at CSPPL, or any other large capex/investment, leading to the Total external debt/OPBDITA remaining above 3.0 times on a sustained basis. The ratings could also come under pressure in case of any major advances/investment made to related parties/outside entities, resulting in a deterioration in the liquidity profile.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Ferrous Metals Industry</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of ASPL, AS&PL and CSPPL, and has taken a consolidated rating view owing to the common management, close financial and operational linkages among these companies. ICRA has also factored in the proposed acquisition of Topworth Steels and Power Private Limited (TSPP) by the Group, which is in the final leg of transaction closure, post receipt of the NCLT order.

## About the company

Crest Steel and Power Private Limited (CSPPL) was acquired by Amalgam Steel Private Limited (ASPL) and Amalgam Steel & Power Limited (AS&PL) (with each holding an equity stake of 47.5%) from Nithia Capital Resources Advisors LLP in FY2023. Nithia Capital Resources Advisors LLP had earlier acquired CSPPL through the IBC route. ASPL and AS&PL is an equal JV between Atha and Misra Groups. 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 1.5-mt-per-annum pellet plant, 0.25-mt-per-annum DRI plant, 0.08-mt-per-annum billet unit and 35-MW CPP. The manufacturing facility of the company is in Rajnandgaon district, Chhattisgarh.

## Key financial indicators (Audited)

CSPPL	Standalone^		Consolidated***	
	FY2022	FY2023	FY2022	FY2023
Operating Income (Rs. crore)	596.7	867.2	1,988.1	2,978.0
PAT (Rs. crore)	4.7	-319.0	149.5	-373.6
OPBDIT/OI (%)	2.4%	4.5%	11.1%	5.6%
PAT/OI (%)	0.8%	-36.8%	7.5%	-12.5%
Total Outside Liabilities/Tangible Net Worth (times)	NM	1.2	0.7	0.7
Total Debt/OPBDIT (times)	NM	10.2	3.7	5.2
Total External Debt/OPBDIT	NM	1.3	2.9	4.2
Interest Coverage (times)	NM	1.3	6.6	2.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NM: Not meaningful

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

^Control over CSPPL was taken on June 29, 2022 by ASPL and AS&PL before which it was under NCLT regime

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 26, 2023	Oct 27, 2022	-	-
1 Term Loans	Long term	460.00	0.00	[ICRA]BBB+ (Stable)	-	-	-
2 Fund Based Limits – Cash Credit	Long term	100.00	--	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-	-
3 Non Fund-Based Facilities	Short-Term	50.00	--	[ICRA]A2	-	-	-
4 Short Term Loans*	Short-Term	(100.00)	--	[ICRA]A2	[ICRA]A2+	-	-

\*sub-limit of fund-based limit

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund Based Limits – Cash Credit	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: [Click Here](#)

#### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2024	NA	FY2036	460.00	[ICRA]BBB+ (Stable)
NA	Fund Based Limits – Cash Credit	NA	NA	NA	100.00	[ICRA]BBB+ (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	50.00	[ICRA]A2
NA	Short Term Loans*	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
Amalgam Steel & Power Limited	-	Full consolidation

Source: Company

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### Branches



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