March 21, 2024

MITC Rolling Mills Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	40.00	40.00	[ICRA]BBB+; reaffirmed; Outlook revised to Stable from Negative
Short term – Non-fund based	20.00	20.00	[ICRA]A2+; reaffirmed
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has considered financials of MITC Rolling Mills Private Limited along with its subsidiary, Shree Vaishnav Castings Private Limited, together referred to as the MITC Group.

The revision in the outlook to Stable from Negative reflects ICRA's opinion that the MITC Group's financial risk profile is expected to remain comfortable despite its large capital expenditure (capex) requirement in the near-to-medium term for revamping the operations of the newly acquired entity. This can be attributed to limited dependence on external debt as a sizeable portion of the funding requirement would be met through a mix of internal accruals and unsecured loans extended by the promoters. The ratings also favourably factor in the MITC Group's healthy liquidity position and a comfortable capital structure. The ratings further consider the operational synergies arising from its partly integrated nature of operations. The ability of the Group to complete the expansion project in its subsidiary within the budgeted cost and time and ramping the operations in a timely and profitable manner would be the key ratings factors. The ratings also draw comfort from the extensive experience of the promoters in the industry, having healthy relationships with reputed customers and suppliers.

However, the ratings are constrained by the intensely competitive nature of the thermo-mechanically treated (TMT) bar manufacturing business, resulting in pricing pressure and thin profitability for the company, as reflected in the modest operating profit margin (OPM) of 1.6-2.8% in the last six fiscals. The ratings also consider MITC's exposure to the counterparty credit risks. However, ICRA notes that the company's clientele consists of reputed real-estate players, and it secures a portion of its overall sales by letters of credit, which mitigates the counterparty credit risks to some extent. The company also remains exposed to the cyclicality inherent in the steel and real estate industries, which is likely to keep its cash flows volatile.

Key rating drivers and their description

Credit strengths

Healthy liquidity position – MITC's liquidity position remains healthy on the back of unutilised cash credit balances of Rs. 40 crore (with adequate drawing power) and unencumbered fixed deposits and bank balance of ~Rs. 42 crore as on March 11, 2024.

Comfortable capitalisation metrics – MITC's capital structure remains comfortable, on a standalone level, as reflected by a gearing of 0.7 times as on March 31, 2023 due to limited dependence on bank borrowings to fund the working capital requirements as well as its high liquid balances. The total debt mainly consists of interest free/low interest bearing unsecured loans from MITC's promoters, their relatives and associate concerns. Notwithstanding the large capex requirement in the near-to-medium term to revamp the operations of the newly acquired entity, the capitalisation metrics are expected to remain comfortable as a sizeable portion of the funding requirement is expected to be met through internal accruals and unsecured loans from promoters.

Besides, gradual increase in scale of operations led by stabilisation of the new operational unit, stable OPM and controlled working capital cycle are likely to keep the overall financial profile comfortable, going forward.

Partly integrated operations – The company has a partially integrated facility with an induction furnace and continuous caster to produce billets using sponge iron and scrap, which in turn are captively consumed towards the production of TMT bars. Besides supporting the operating profitability, the backward integration ensures smooth raw material availability.

Extensive experience of the promoters – MITC was promoted by Mr. C M Shah, who has over four decades of experience in the steel industry. MITC's day-to-day operations are managed by Mr. Atul Shah, who has around two decades of experience in the steel industry. Extensive track record of the promoters resulted in establishing healthy relationships with reputed customers and suppliers.

Credit challenges

Inorganic growth plans – MITC recently acquired an adjoining steel unit in Nashik via the IBC route. The financial risk profile of the Group may weaken if it is unable to complete the expansion project within the budgeted cost and time as well as achieve ramp up of operations in a timely and profitable manner.

Exposure to counterparty credit risks – MITC's customer base includes reputed builders and construction companies in Maharashtra. While 15-20% of the company's total sales is secured by the letter of credit, it remains exposed to the counterparty credit risk for the balance exposure. However, ICRA notes that MITC's overdue receivables of more than 180 days constituted less than 1% of its total receivables as on December 31, 2023.

Intense competition in TMT bar manufacturing business exerts pricing pressure and leads to thin profitability – MITC operates in an intensely competitive TMT bar manufacturing business. Highly fragmented nature of the business leads to pricing pressure, which in turn results in thin profitability. The company's OPM remained low in the range of 1.6-2.8% in the last six fiscals. Besides, MITC's margins also remain susceptible to raw material price fluctuations.

Exposure to cyclicality in the real estate and steel sectors – The company's operations are vulnerable to any adverse change in the demand-supply dynamics in the real estate and steel sectors. The cyclicality inherent in both these sectors is likely to keep MITC's cash flows volatile.

Liquidity position: Adequate

MITC's liquidity position remains adequate on the back of unutilised working capital limits of Rs. 40 crore (with commensurate drawing power) and unencumbered fixed deposits and bank balance of ~Rs. 42 crore as on March 11, 2024. The Group's large capex requirement of ~Rs. 100 crore over the medium term is expected to be funded through term loans worth Rs. 25 crore and the remaining requirement would be met through internal cash generation and unsecured loans from promoters. As the unsecured loans would not have any fixed repayment period, yearly repayment obligations would be limited to Rs. 5 crore from FY2026. The ability of the Group to complete the expansion project within the budgeted costs and time and profitable ramp-up of its operations remain key rating factors.

Rating sensitivities

Positive factors – ICRA could upgrade MITC's rating, if there is a sustained improvement in revenues and/or profitability, leading to an improvement in the overall financial risk profile while maintaining the capital structure.

Negative factors – Pressure on MITC's ratings could arise if a deterioration in earnings weakens its financial risk profile such that its interest coverage ratio remains below 3.5 times on a sustained basis. The ratings may also be downgraded in case of a significant delay in ramping up the operations of the acquired entity or if any higher than anticipated capex/investment affects the financial risk profile and the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Entities in the Iron & Steel Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of MITC Rolling Mills Private Limited and Shree Vaishnav Castings Private Limited.

About the company

Incorporated in 1999, MITC manufactures TMT bars at its facility near Nasik (Maharashtra), with an installed capacity of 1,50,000 metric tonnes per annum (MTPA). MITC has partially integrated operations, whereby billets required for TMT manufacturing are mainly produced in-house using a mix of sponge iron and scrap as raw materials. Its customer base includes reputed real-estate companies and large corporates in Maharashtra. Besides TMT bars, MITC operates a foundry division and manufactures cast-iron castings of various grades and sizes.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	757.2	971.0
PAT	10.2	14.1
OPBDIT/OI	2.8%	2.4%
PAT/OI	1.4%	1.5%
Total outside liabilities/Tangible net worth (times)	1.0	1.2
Total debt/OPBDIT (times)	3.0	3.6
Interest coverage (times)	5.0	7.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 21, 2024	Apr 14, 2023	Apr 07, 2022	Jun 03, 2021	Sep 04, 2020
1	**Fund-based Cash Credit**	Long term	40.00	--	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**
2	**Non-fund Based Limits**	Short term	20.00	--	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**
3	**Unallocated Limits**	Short term	-	--	-	-	**[ICRA]A2+; Withdrawn**	**[ICRA]A2+**	**[ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Short term – Non-fund based	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based – Cash credit	-	-	-	40.00	[ICRA]BBB+ (Stable)
NA	Short term – Non-fund based	-	-	-	20.00	[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
MITC Rolling Mills Private Limited	Full Consolidation
Shree Vaishnav Castings Private Limited	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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