

March 01, 2017

Mahamaya Steel Industries Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	36.50 (enhanced from Rs. 31.06 crore)	[ICRA]BB+ (Stable) reaffirmed/ assigned
Non-fund Based Limits	36.00	[ICRA]A4+ reaffirmed
Untied Limits	10.50 (enhanced from Nil)	[ICRA]BB+ (Stable)/ [ICRA]A4+ assigned

**Instrument Details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) assigned to the Rs. 6.50-crore¹ (enhanced from Rs. 1.06 crore earlier) term loan and Rs. 30.00-crore cash credit facilities of Mahamaya Steel Industries Limited (MSIL)². ICRA has also reaffirmed the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) assigned to the Rs. 36.00-crore non-fund based bank facilities of MSIL. ICRA has also assigned the long-term rating of [ICRA]BB+ and the short-term rating of [ICRA]A4+ to the untied limits of Rs. 10.50-crore MSIL. The outlook on the long-term rating is 'Stable'.

Rationale

The ratings reaffirmation takes into consideration the promoters' long track record in the steel industry, the backward integration within the group for supply of a major portion of the company's sponge iron requirement as well as a part of the billet requirement, which leads to better control on raw materials, and MSIL's strong product and customer profile, reducing counter-party risk to an extent.

The ratings are, however, impacted by the significant cash losses suffered in FY2016, resulting in subdued coverage indicators; notwithstanding some improvement witnessed in the current fiscal. The liquidity position of MSIL has remained stretched in view of the high utilisation of working capital limits, which also restricts the financial flexibility of the company. The ratings are also constrained by the cyclical nature inherent in the steel industry, which is passing through a weak phase, and has adversely impacted the average realisation of the company in FY2016. Further, the profitability and cash flows would remain susceptible to the inherent volatility in the raw materials and finished goods prices. ICRA also notes that MSIL has to face intense competition from large integrated steel manufacturers and subdued demand from the consuming sectors.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The company's ability to achieve revenue growth, while improving its profitability and capital structure as well as liquidity position would remain the key rating sensitivities. Lower-than-anticipated production level and rising input costs could adversely impact the profitability as well as cash accruals of the company and would remain a credit concern, going forward.

Key rating drivers

Credit Strengths

- Long track record of the promoters in the steel industry
- Backward integration within the group for supply of a major portion of the sponge iron requirement as well as a part of the billet requirement, leading to better control on raw materials to an extent
- Strong product and customer profile reduces counter-party risk to an extent

Credit Weakness

- Significant cash losses suffered in FY2016; weak coverage indicators, notwithstanding some improvement witnessed in the current fiscal
- Ongoing slowdown in the steel sector; MSIL's growth and profitability are likely to remain under pressure in the short term at least
- Stretched liquidity position as reflected by high utilisation of working capital limits, which also restricts the financial flexibility of the company
- Exposure to the inherent cyclical nature in the steel industry, which is likely to keep the company's profitability and cash flows volatile
- Intense competition from large integrated steel manufacturers and subdued demand from consuming sectors

Description of key rating drivers highlighted above:

MSIL has its production facilities of billets/ blooms and structural steel products at Urla Industrial Complex, Raipur (Chhattisgarh). It procures a major portion of its sponge iron requirement from its group companies - namely Devi Iron and Power Private Limited (DIPPL) and Shree Shyam Sponge and Power Limited (SSSPL) - which are located close to its plant, thus reducing freight costs. Additionally, the company also procures the excess billets/ blooms produced by Abhishek Steel Industries Limited (ASIL). The vertically integrated nature of operations within the Group provides MSIL with the flexibility to operate according to the market scenario. The company is an approved vendor for a number of public as well as private sector undertakings, which strengthens its operational risk profile. The overall capacity utilisation of the rolling mill and the SMS division has remained low on the back of ongoing weakness in the consuming sector. The ingot/billet, structural manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers, which limits the pricing flexibility of the participants, including MSIL.

In order to replace an old furnace in the SMS division, MSIL installed a new 15 MT induction furnace in January 2017, maintaining the overall production capacity of the division at the same level. The company has incurred a capital cost of around Rs. 8.50 crore, which was funded by a term loan of Rs. 6.50 crore from banks and the balance was acquired through internal accruals.

The operating income of MSIL has increased from Rs. 291.54 crore in FY2015 to Rs. 309.69 crore in FY2016, registering a growth of around 6%, due to an increase in the overall volume of sales. Despite a steep decline in the average realisation of billets/ blooms by around 17% and steel structures by around 22%, the overall volume of sales of billets/ blooms has increased by around 33% and steel structures has increased by around 35% during FY2016 over the previous fiscal. The operating profit margin (OPM) of the company has declined to 0.47% in FY2016 from 5.51% in FY2015, primarily on account of a steady decline in the realisation, which led to significant inventory losses for the company. The net profit margin (NPM) was impacted by high interest expenses, which resulted in significant cash losses for the company during FY2016. During the first nine months of the current fiscal, with an improvement in the overall realisation, MSIL has recorded an OPM of 5.06% compared to 0.01%, corresponding to the similar period of the previous fiscal. However, the company's topline witnessed a de-growth of around 26% in 9M FY2017 vis-à-vis 9M FY2016, owing to lower volume of sales on the back of a weak demand scenario. During Q2 FY2017, MSIL sold 20 lakh of equity shares of Devi Iron and Power Private Limited at Rs. 5.80 crore (book value of investment was Rs. 2.00 crore) to a body corporate. Accordingly, the company has made a profit of Rs. 3.80 crore from the sale of investment (shares).

The capital structure of MSIL has remained at a comfortable level over the past years, although the net worth of the company was eroded to some extent on the back of significant losses incurred during FY2016. Total Debt of the company also includes 8% redeemable non-cumulative non-convertible preference share capital of Rs. 32.00 crore from group NBFCs. On account of the decline in the profitability and cash accruals, the coverage indicators witnessed a deterioration and remained subdued in FY2016. During the first nine months of the current fiscal, with the rise in profitability, the coverage indicators of the company witnessed an improvement and remained at a moderate level, as reflected by an interest coverage of 1.37 times, net cash accruals relative to Total Debt of 14% and Total Debt/ OPBDITA of 5.53 times. The company has made significant investment in the form of preference share capital of Rs. 13.96 crore in one of its group companies (Devi Iron And Power Private Limited) in FY2016.

Analytical approach:

For arriving at the ratings, ICRA has taken into consideration the overall business risk profile of the Mahamaya Group, which includes Mahamaya Steel Industries Limited (MSIL), Abhishek Steel Industries Limited (ASIL, rated at [ICRA]BB+/Stable and [ICRA]A4+), Devi Iron and Power Private Limited (DIPPL, rated at [ICRA]BB-/stable and [ICRA]A4) and Shree Shyam Sponge and Power Limited (SSSPL, rated at [ICRA]BB-/stable and [ICRA]A4), because of the strong managerial, operational and financial linkages among the group companies.

Links to applicable criteria

Corporate Credit Rating – A Note on Methodology
ICRA's Rating Methodology for Steel Companies

About the company:

Mahamaya Steel Industries Limited (MSIL) was incorporated in May 1988, by Mr. Ramanand Agrawal as the flagship company of the Raipur-based Mahamaya Group. The company was later reconstituted as a public limited company in August 1990. Located at Raipur (Chhattisgarh), MSIL has production facilities for billets/blooms and structural steel products with annual production capacities of 200,000 metric tonne (MT) and 255,000 MT respectively. Additionally, the company also has a gas plant with an annual production capacity of 900,000 cubic metre (CuM). It supplies oxygen and nitrogen cylinders to external

customers and also uses them for its captive consumption. MSIL produces heavy and light steel structural products such as beams, channels and girders, which are largely used for heavy construction. Its products are sold under the brand name “MAHAMAYA”.

Status of non-cooperation with previous CRA:

CRA	Status of Non-cooperation	Date of Press Release
CRISIL Limited	Ratings Suspended	November 08, 2013

Any other information: Not Applicable

Rating history for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated Amount (Rs. Crore)	Month-Year & Rating	Month- Year & Rating in FY2016		Month- Year & Rating in FY2015	Month- Year & Rating in FY2014
				March 2017	February, 2016	November, 2015	September, 2014	August, 2013
1	Term Loan	Long Term	6.50	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	Long Term	30.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit/ Bank Guarantee	Short Term	36.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Untied Limits	Long Term/ Short Term	10.50	[ICRA]BB+ (Stable)/ [ICRA]A4+	NA	NA	NA	NA

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Term Loan	January 2016	13.20%	March, 2023	6.50	[ICRA]BB+ (Stable)
Cash Credit	-	-	-	30.00	[ICRA]BB+ (Stable)
Letter of Credit/ Bank Guarantee	-	-	-	36.00	[ICRA]A4+
Untied Limits	-	-	-	10.50	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: MSIL

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About ICRA Limited:

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