Mahamaya Steel Industries Limited

January 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	36.50	36.50	[ICRA]BB (Stable); Rating downgraded from [ICRA]BB+ (Stable)
Non-fund Based Limits	36.00	36.00	[ICRA]A4+; Reaffirmed
Untied Limits	10.50	10.50	[ICRA]BB (Stable); Rating downgraded from [ICRA]BB+ (Stable)/ [ICRA]A4+; Reaffirmed
Total	**83.00**	**83.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised downward the long-term rating assigned to the Rs. 6.50-crore[1] term loan and Rs. 30.00-crore cash-credit facilities of Mahamaya Steel Industries Limited (MSIL)[2] from **[ICRA]BB+** (pronounced ICRA double B plus) to **[ICRA]BB** (pronounced ICRA double B). ICRA has 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 downgraded the long-term rating from **[ICRA]BB+** to **[ICRA]BB** and reaffirmed the short-term rating of **[ICRA]A4+** to the untied limits of Rs. 10.50 crore of MSIL.The outlook on the long-term rating is 'Stable'.

Rationale

The downward revision in the long-term rating takes into account sizeable financial exposure of the company to some of its group entities, which have incurred significant cash losses over the past two years, thus weakening the credit risk profile of MSIL. The ratings continue to remain constrained due to low profitability of the company and moderate level of coverage indicators. The company's liquidity position remained tight as evident from consistently high utilisation of its working-capital limits, which restrict its financial flexibility. The ratings are also constrained by the ongoing weakness in the steel industry, leading to sub-optimal level of capacity utilisation of the units. Further, the profitability and cash flows would remain susceptible to the inherent volatility in 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.

The ratings, however, derive comfort from the promoters' long track record in the steel industry, backward integration within the group for supply of a major portion of the company's raw-material requirement, which leads to better control on input materials, and MSIL's strong product and customer profile, reducing counter-party risk to an extent.

Going forward, the company's ability to scale up its operations, improve profitability and coverage indicators, and manage liquidity efficiently would be the key rating sensitivities.

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[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*

Outlook: Stable

ICRA believes MSIL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working-capital management strengthen the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Long track record of the promoters in the steel industry – MSIL has its production facilities of billets/ blooms and structural steel products at Urla Industrial Complex, Raipur (Chhattisgarh). The promoters are associated with the steel industry for more than two decades. Moreover, the company is an approved vendor for a number of public as well as private-sector undertakings, which strengthens its operational risk profile.

Backward integration within the group for supply of a major portion of its raw materials – The company procures a major portion of its sponge iron/ billets/ blooms requirement from its group/ associate companies - namely Devi Iron and Power Private Limited (DIPPL) and Abhishek Steel Industries Limited (ASIL) - which are located close to its plant, thus reducing freight costs and also have better control on raw materials to an extent. The vertically integrated nature of operations within the Group provides MSIL with the flexibility to operate according to the market scenario.

Strong product and customer profile reduces counter-party risk to an extent – MSIL primarily produces heavy as well as light steel structural products such as beams, channels and girders, which are mainly used for heavy construction work. The clientele of the company is reputed and has remained diversified over the years. Established relationships with the clients minimise the counter-party risk to a large extent.

Credit challenges

Significant financial exposure to weaker group companies – The company has sizeable financial exposure to some of its group entities in the form of investment in equity/ preference share capital, receivables and advances given for raw materials. ICRA notes that these group companies have incurred significant cash losses over the past two years, thus weakening the credit risk profile of MSIL.

Low profitability and moderate level of coverage indicators – During the first half of the current fiscal, with an improvement in the overall realisation, MSIL recorded an OPM of 8.12% compared to 4.15% in the corresponding period of the previous fiscal. However, the net profit margin was impacted by high interest expenses, and remained subdued at 0.34% in H1 FY2018. The coverage indicators of the company continue to remain at a moderate level over the past few years.

Tight liquidity position, restricting financial flexibility of the company – ICRA notes that the working-capital intensity of operations rose, as reflected by NWC/OI of 17% in H1 FY2017 to 28% in H1 FY2018, primarily on the back of increase in loans and advances (short-term). The liquidity position of the company remained tight as evident from consistently high utilisation of its working-capital limits, which restrict its financial flexibility.

Intense competition from large integrated steel manufacturers and subdued demand from consuming sectors – The ingot/ billet/ bloom, structural manufacturing business is characterised by intense competition from across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers, which limit the pricing flexibility of the participants, including MSIL. The top-line of the company has witnessed a de-growth of around 20% in H1 FY2018 vis-à-vis H1 FY2017 owing to lower volume of sales on the back of weak demand scenario.

Exposure to the inherent cyclicality in the steel industry – The ratings continue to be impacted by the cyclicality inherent in the steel industry, which are likely to keep the margins and cash flows of all the players in the steel industry, including MSIL, volatile.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Entities in the Ferrous Metals Industry]

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 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 primarily used for heavy construction. Its products are sold under the brand name “MAHAMAYA”.

Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)	H1 FY2017 (Unaudited)	H1 FY2018 (Unaudited)
Operating Income (Rs. crore)	309.69	253.79	130.87	104.20
PAT (Rs. crore)	-15.25	3.32	0.42	0.36
OPBDIT/ OI (%)	0.47%	6.81%	4.15%	8.12%
RoCE (%)	-1.57%	8.39%	7.88%	7.07%
Total Debt/ TNW (times)	0.93	0.94	0.78	0.84
Total Debt/ OPBDIT (times)	48.95	4.41	5.66	4.02
Interest coverage (times)	0.16	1.80	0.99	1.65
NWC/ OI (%)	17%	24%	17%	28%

Status of non-cooperation with previous CRA: Not applicable

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

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore) March 31, 2017	Date & Rating Jan, 2018	Date & Rating in FY2017 Mar, 2017	Date & Rating in FY2016 Feb, 2016	Nov, 2015	Date & Rating in FY2015 Oct, 2014
1	Term Loan	Long Term	6.50	**5.80**	**[ICRA]BB (Stable)**	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	Long Term	30.00	**28.62**	**[ICRA]BB (Stable)**	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit/ Bank Guarantee	Short Term	36.00	**24.90**	**[ICRA]A4+**	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+
4	Untied Limits	Long Term/ Short Term	10.50	**NA**	**[ICRA]BB (Stable)/ [ICRA]A4+**	[ICRA]BB+ (Stable)/ [ICRA]A4+	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: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jan-2016	NA	Mar-2023	6.50	[ICRA]BB (Stable)
NA	Cash Credit	NA	NA	NA	30.00	[ICRA]BB (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	36.00	[ICRA]A4+
NA	Untied Limits	NA	NA	NA	10.50	[ICRA]BB (Stable)/ [ICRA]A4+

Source: Mahamaya Steel Industries Limited

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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.

For more information, visit www.icra.in

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