September 29, 2021

Amalgam Steel & Power Limited: Long-term rating upgraded; short-term rating assigned

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	186.00	128.56	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Cash credit	117.55	117.55	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Long term interchangeable	-	(67.55)*	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short term interchangeable (WCDL)	-	(67.00)*	[ICRA]A2+; assigned
Total	**303.55**	**246.11**	

*^Instrument details are provided in Annexure-1; *sub-limit of fund based limit; WCDL – Working capital demand loan*

Rationale

The rating upgrade reflects the better-than-expected operating and financial performance of Amalgam Steel & Power Limited's (AS&PL) in FY2021 and 5M FY2022 on the back of healthy demand and remunerative sponge iron and billet prices, and ICRA's expectation that the strong performance will sustain in the near-to-medium term. Despite demand disruption in Q1 FY2021 due to pandemic induced slowdown, AS&PL's FY2021 operating income remained better than FY2020 level. The company reported a 30% annualised revenue growth in 5M FY2022. It has adequate liquidity supported by unencumbered cash and liquid investments of Rs. 132 crore as on August 31, 2021. The rating also derives comfort from the company's competitive inbound and outbound logistics costs as the plant is located in proximity to raw material sources and customers. AS&PL is a wholly-owned subsidiary of Transform Steel Private Limited (TSPL), a 50:50 joint venture (JV) between Kolkata-based Atha and Misra Groups, which operate iron ore mines in Odisha with approvals to cumulatively mine up to 5.6 million tonnes per annum (mtpa) of iron ore. AS&PL's Group company, Amalgam Steel Private Limited (ASPL; rated [ICRA]A- (Stable)) operates a 1.2-mtpa pellet plant in the same premises as that of AS&PL and supplies pellets to AS&PL, which results in significant transportation cost savings. ASPL, in turn procures iron ore majorly from mines of Narbheram Power & Steel Private Limited (NPSPL, a part of the Atha Group) and Ghanshyam Misra & Sons Private Limited (GMSPL), which would mitigate raw material supply risk. ICRA notes that the synergies arising from AS&PL's association with Group companies support its operating profile and keep its cost of production competitive.

The rating, however, is constrained by the large advances of Rs. 188 crore (outstanding as on March 31, 2021) extended by AS&PL to TSPL, which adversely impacts its financial risk profile. These advances were utilised by the shareholders of TSPL viz. NPSPL and GMSPL for mine acquisition related capex. Any deterioration in the credit profiles of NPSPL and GMSPL would remain a key rating sensitivity. The rating also factors in AS&PL's exposure to cyclicality inherent in the steel industry and to the regulatory risks as any unfavourable change in the Government policy may impact iron ore/coal availability and its prices.

The Stable outlook on the [ICRA]A- rating reflects ICRA's expectation that AS&PL would benefit from the extensive experience of its promoters in the steel industry and the synergies derived from its Group companies, which in turn would support its profitability in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Strong operating and financial performances – The company reported a 3% revenue growth to Rs. 713.2 crore in FY2021 from Rs. 694.0 crore in FY2020 despite disruption caused by the onset of the pandemic. This was supported by rise in sponge iron and billet prices. The company's average sponge iron realisation improved to Rs. 20,305 per MT in FY2021 from Rs. 17,057 per MT in FY2020. The billet realisation also improved to Rs. 31,704 per MT from Rs. 28,570 per MT during this period. In the current fiscal, further rise in prices resulted in a 30% annualised increase in revenues to Rs. 387 crore in 5M FY2022. Healthy free cash generation from business resulted in improved liquidity position, with unencumbered cash and liquid investments of Rs. 132 crore as on August 31, 2021. The capital structure also remained conservative with gearing of 0.2 times as on March 31, 2021. ICRA expects around 30% YoY growth in revenues and operating margin of close to 11% in the current fiscal.

Location-specific advantage of the plant – The company's manufacturing facilities are located near Jamshedpur in Jharkhand. The unit is located adjacent to ASPL's plant, which ensures regular supply of pellets and results in significant savings in transportation cost. The company also has a railway siding, which enables it to procure iron ore and imported thermal coal via railway from nearby mines and ports, respectively 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 industry and results in competitive advantage in pricing its products.

Extensive experience of promoters and linkages with Atha and Misra Group companies – AS&PL 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 5.6 mt iron ore annually. AS&PL is also planning to participate in Odisha mine auctions. However, it is yet to qualify in the technical round. AS&PL procures pellet from ASPL, which results in significant transportation cost savings. Going forward, iron ore procurement by ASPL (AS&PL's major supplier for pellet) from the mines of NPSPL and GMSPL would mitigate raw material supply risk and would reduce the freight costs further as these mines are located closer to AS&PL's plant. Such synergies arising from AS&PL's association with other Group companies support its operating profile and keep its cost of production low. ICRA does not expect AS&PL to support its group companies involved in mining operations in Odisha in case of any unfavourable regulatory development going forward.

Credit challenges

Large advances extended to holding company – AS&PL has extended advances of Rs. 188 crore (outstanding as on March 31, 2021) to TSPL. These advances were utilised by the shareholders of TSPL viz. NPSPL and GMSPL for mine acquisition related capex. In return, AS&PL will get an assured supply of iron ore from NPSPL and earn interest at 6% annually on these advances. Going forward, any deterioration in the credit profiles of NPSPL and GMSPL would impact AS&PL's financial risk profile.

Exposure to price risks – Iron ore/pellet and thermal coal are the two key raw materials for AS&PL. The prices of these two commodities have witnessed significant volatility in the past, which accentuates AS&PL's exposure to input price volatility risks. In addition, the company remains exposed to cyclicality inherent in the steel industry, which is likely to make its cash flows volatile.

Exposure to regulatory risks – AS&PL, like other sponge iron manufacturers, remains exposed to regulatory risks, as any unfavourable change in the Government policy may impact its raw material availability and prices.

Liquidity position: Adequate

AS&PL's liquidity position remains adequate. While it has term loan obligations of Rs. 28.5 crore in FY2022, it has already prepaid Rs. 29 crore in 4M FY2022. The company does not have any immediate capex plan. It is planning to participate in Odisha mine auction. If successful, the upfront payment is expected to be less than Rs. 30 crore, which would be adjusted against future royalty payouts. The company's liquidity is supported by its unencumbered cash balance of Rs. 132 crore and unutilised working capital limits of around Rs. 40 crore as on August 31, 2021 (backed by the commensurate drawing power).

Rating sensitivities

Positive factors – ICRA could upgrade AS&PL's rating if there is a healthy improvement in profitability, and/or if the total debt-to-operating profit ratio remains below 1.5 times on a sustained basis.

Negative factors – Pressure on the rating may emerge in case of a significant downturn in the industry conditions, leading to a persistent decline in realisations, and/or if the total debt-to-operating profit ratio remains above 2.5 times on a sustained basis and/or in case of any major cash outflow to related parties.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

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, was referred to the Kolkata bench of the National Company Law Tribunal (NCLT) in 2017.

AS&PL's corporate insolvency resolution process was initiated in August 2017. On November 14, 2018, the committee of creditors approved the resolution plan submitted by Misra and Atha Groups (joint-bidders with 50:50 stake) and the same was approved by the NCLT vide its order dated December 7, 2018. The total purchase consideration was Rs. 397 crore against the admitted financial claims of Rs. 757 crore. Atha and Misra Groups created a JV named TSPL for the acquisition.

Key financial indicators

Consolidated financials (Ind AS)	FY2020 (Audited)	FY2021 (Provisional)
Operating Income (Rs. crore)	694.0	713.2
PAT (Rs. crore)	32.5	43.0
OPBDIT/OI (%)	9.3%	10.2%
PAT/OI (%)	4.7%	6.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	3.5	2.8
Interest Coverage (times)	3.5	3.8

Source: Company; P – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: AS&PL

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Sep 29, 2021	Sep 7, 2020	Jul 25, 2019	May 27, 2019	-
1	Term loan	LT	128.56	128.56*	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Cash credit	LT	117.55	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Non-fund based	LT	(67.55)^	-	[ICRA]A- (Stable)	-	-	-	-
4	WCDL	ST	(67.00)^		[ICRA]A2+	-	-	-	-

*Amount in Rs. crore; *As on Aug 31, 2021; LT – Long Term; ^sub-limit of cash credit facility; ST – Short Term*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Non-fund based	Simple
WCDL	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 analyzing 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, is available on ICRA's 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	FY2021	-	FY2027	128.56	[ICRA]A- (Stable)
NA	Cash credit	-	-	-	117.55	[ICRA]A- (Stable)
NA	Non-fund based	-	-	-	(67.55)^	[ICRA]A- (Stable)
NA	WCDL	-	-	-	(67.00)^	[ICRA]A2+

Source: *Company*l ^sub-limit of cash credit facility

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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