September 29, 2021

Amalgam Steel Private 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	93.75	62.50	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Cash credit	146.80	146.80	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Long Term Non-fund based	9.00	9.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short Term – Interchangeable (WCDL)	-	(110.00)*	[ICRA]A2+; assigned
Total	**249.55**	**218.30**	

*^Instrument details are provided in Annexure-1; *Sub-limit of Cash credit facility; WCDL – Working capital demand loan*

Rationale

The rating upgrade reflects better-than-expected operating and financial performances of Amalgam Steel Private Limited (ASPL) in FY2021 and 5M FY2022 on the back of healthy demand and remunerative pellet prices and ICRA's expectation that the strong performance will sustain in the near-to-medium term. ASPL reported a 60% revenue growth in FY2021 and an annualised revenue growth of 157% in 5M FY2022. Besides, healthy profitability resulted in a comfortable liquidity and an improved credit profile. The rating also considers the proximity of ASPL's plant to iron ore mines, which ensures smooth availability of raw materials and results in low freight costs. The rating also considers the extensive experience of ASPL's promoters in the steel industry and the company's established relationship with reputed suppliers, which ensure uninterrupted supply of raw materials. ASPL is a 50:50 joint venture (JV) between Kolkata-based Atha and Misra Groups, which have interests in mining, steel and solar power generation businesses. Going forward, increased procurement from the Group's captive mines would reduce the freight costs further as these mines are located closer to the ASPL's plant than that of merchant miners. The company also has access to the railway siding of Amalgam Steel & Power Limited (AS&PL; erstwhile Adhunik Alloys & Power Limited; rated [ICRA]A-/Stable), a Group company, which is in the same complex.

The strengths are, however, partially offset by the company's high, albeit declining, debt levels owing to largely debt-funded acquisition of ASPL in the past through the insolvency resolution process. While the total debt stood at Rs. 373 crore (including unsecured loans of Rs. 166 crore from its holding company, Energia Steel Private Limited) as on March 31, 2021, ICRA draws comfort from the management's stated intent that the unsecured loans are subordinated and would not be repaid till the time the bank borrowings are fully repaid. ICRA also understands that in future, the company might consider converting the unsecured loans into equity or waive off the same, which in turn would de-leverage the capital structure. The rating also factors in the exposure of the company's profitability to volatility in pellet and iron ore prices. ICRA notes that any significant contraction in the spread between pellet and iron ore fines prices would affect ASPL's cash generating ability, which in turn would exert pressure on its liquidity profile. The rating also factors in the company's exposure to regulatory risks as any unfavourable change in the Government's policy may impact iron ore availability and prices.

The Stable outlook on the [ICRA]A- rating reflects ICRA's expectation that ASPL would benefit from the extensive experience of its promoters in the steel industry. The preference of pellet over sinter/lumps in steel making due to the benefits associated with a higher furnace productivity would drive domestic pellet demand, going forward, and would sustain ASPL's strong performance in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Strong operating and financial performances – The company's operating income and profits rose significantly in FY2021 and 5M FY2022, supported by large pellet price hikes owing to favourable domestic demand. It reported operating income of Rs. 733 crore in FY2021 and Rs. 785 crore in 5M FY2022. The average direct sales realisation improved to Rs. 7,268 per MT in FY2021 from Rs. 5,827 per MT in FY2020. This resulted in better-than-expected operating profit margin of 24.4% in FY2021. The FY2022 operating income is likely to remain significantly higher than FY2021 at around Rs. 1,500 crore. While the profitability is likely to witness some moderation owing to recent correction in pellet prices, the same is likely to remain healthy at an absolute level, supported by robust top-line growth.

Location-specific advantage of the plant – The company operates a 1.2-mtpa pellet plant near Jamshedpur, in Jharkhand. The plant is located close to iron ore mines, which ensures regular supply of iron ore (key raw material for pellet manufacturing) and results in low transportation costs. The company also has access to the railway siding of AS&PL, which enables ASPL to procure iron ore via rail and results in lower freight cost.

Extensive experience of promoters and linkages with Atha and Misra Group companies – ASPL is promoted by the 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. Besides, they also have steel-making capacity of 0.3 mtpa. ASPL is also supplying pellet to AS&PL, which has a 0.23-mtpa sponge iron and 0.16-mtpa billet making facilities. Going forward, increased iron ore procurement from mines of Atha/Misra Groups, operated by Narbheram Power & Steel Private Limited (NPSPL) and Ghanshyam Misra & Sons (GMS), would reduce the freight costs further as these mines are located closer to ASPL's plant. ICRA does not expect ASPL to support its group companies involved in mining operations in Odisha in case of any unfavourable regulatory development going forward.

Credit challenges

High, albeit declining, debt levels; nevertheless, subordinated unsecured loans from promoters provide some comfort – ASPL's total debt as on March 31, 2021 stood at Rs. 373 crore, which mainly comprised term loans of Rs. 68.7 crore, unsecured loans from promoters of Rs. 166 crore, working capital borrowings of Rs. 72.9 crore and cumulative redeemable preference shares of Rs. 48.6 crore. While the total debt has declined as on March 31, 2021 vis-à-vis March 31, 2020, the same remained high at an absolute level. Nonetheless, ICRA notes that the unsecured loans from promoters are subordinated to bank debt, which provides some comfort. Going forward, the capital structure is likely to improve supported by healthy accretion to reserves and the proposed equity conversion or waiver of the entire unsecured loans from promoters.

Exposure to price risks – Pellet prices have witnessed significant volatility in the past. Domestic pellet industry continues to be characterised by overcapacity, which coupled with its fragmented nature, exerts pricing pressure on pellet manufacturers. ICRA notes that ASPL's margins remains vulnerable to any sharp decline in spread between prices of pellet and iron ore fines, which could adversely impact the company's credit metrics.

Exposure to regulatory risks – ASPL, like other pellet 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

ASPL's liquidity position remains adequate as it does not have any major capex plan in the near term and its cash generation from the business is likely to be much higher than its scheduled debt repayment obligations of Rs. 25 crore in FY2022. The company's liquidity is also supported by its unencumbered cash balance of Rs. 75 crore and unutilised working capital limits of Rs. 90 crore as on August 31, 2021 (backed by commensurate drawing power).

Rating sensitivities

Positive factors – ICRA could upgrade ASPL's rating if there is a healthy improvement in profitability, and/or 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 pellet realisation, and/or the total debt-to-operating profit ratio remains above 2.5 times on a sustained basis. The rating may also be downgraded 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

ASPL is a JV between Atha and Misra Groups and currently operates a 1.2-mtpa pellet plant near Jamshedpur, in Jharkhand. The company was demerged from Orissa Manganese & Minerals Limited (OMML), which was acquired by Atha and Misra Groups from the Adhunik Group through an insolvency resolution process in November 2018.

Key financial indicators

Consolidated financials (Ind AS)	FY2020 (Audited)	FY2021 (Provisional)
Operating Income (Rs. crore)	457.6	733.0
PAT (Rs. crore)	36.9	134.5
OPBDIT/OI (%)	18.1%	24.4%
PAT/OI (%)	8.1%	18.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	1.5
Total Debt/OPBDIT (times)	4.8	2.1
Interest Coverage (times)	2.8	6.4

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

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	Jul 24, 2020	Jun 22, 2020	Dec 23, 2019	Sep 11, 2019	Mar 13, 2019
1	Term loan	LT	62.50	62.50*	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash credit	LT	146.80	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-fund based	LT	9.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	WCDL	ST	(110.00)*		[ICRA]A2+	-	-	-	-	-

*Amount in Rs. crore; *As on Aug 31, 2021; LT – Long Term; 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	-	FY2024	62.50	[ICRA]A- (Stable)
NA	Cash credit	-	-	-	146.80	[ICRA]A- (Stable)
NA	Non-fund based	-	-	-	9.00	[ICRA]A- (Stable)
NA	WCDL	-	-	-	(110.00)*	[ICRA]A2+

Source: *Company*

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

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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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