March 31, 2023

Minera Steel and Power Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Term Loan)	150.00	102.80	[ICRA]A (Stable); reaffirmed
Long Term – Fund Based (Cash Credit)	100.00	48.00	[ICRA]A (Stable); reaffirmed
Short Term – Non-Fund Based	80.00	138.00	[ICRA]A1; reaffirmed
Long Term/Short Term – Unallocated	-	41.20	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	**330.00**	**330.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation of Minera Steel and Power Private Limited (Minera) factors in the company's improved financial performance in FY2022 and expected continuation of the same in FY2023/ FY2024. ICRA notes that the overall operating income of the company increased by 40% in FY2022 vis-a-vis FY2021, whereas the OPBIDTA[1] increased by 28% in FY2022 vis-a-vis the previous year. In the current fiscal, Minera achieved sales of Rs.1,210 crore till March 23, 2023, 20% higher than the corresponding period in FY2022. While the operating margins declined to ~10.7% in 9M FY2023 from 18.0% in FY2022 due to rising raw material costs, the absolute profit in the current fiscal is expected to remain significantly higher than the pre-pandemic level. With coal prices are significantly moderating now from the high of Q1 FY2023, ICRA expects Minera's profit margins to remain at healthy level in FY2024. The rating reaffirmation also factors in the promoter's demonstrated experience of over 15 years in the steel industry. The integrated nature of operations enhances the cost competitiveness and partly mitigates from the cyclicity inherent in the steel industry. The captive power generation (which operates on waste-heat generated from the sponge iron kiln as well as on coal/dolochar), pellet, sponge iron, and billet manufacturing capacities of the company in Bellary, Karnataka strengthen the overall operating profile of the company due to backward integration. The ratings also reflect Minera's comfortable financial risk profile, characterised by healthy credit metrics. In addition, the company's healthy cash balance and largely undrawn working capital limits of Rs. 148 crore provide cushion to the overall liquidity of the company.

The reaffirmation of ratings also factors in the expected operationalisation of the two iron ore mines (out of which one mine is already in operation from December 2022), located in proximity to the end-use plant. While these mines have been won at premiums of 59.5% and 107.5%, they are still expected to generate sizeable savings in the future, largely emanating from the savings in logistics costs. The aggregate extraction of iron ore from the mines would sum up to 3,98,000 metric tonnes per annum (MTPA) and facilitate the company to source more than 50% of its total iron ore requirement. The approval from the Ministry of Environment and Forests (MoEF) in FY2023 to increase pellet production to 8 lakh MTPA from 6 lakh MTPA would also support higher level of earnings from the merchant pellet business.

The ratings remain constrained by the company's exposure to the cyclicality inherent in the steel industry and the susceptibility of its profitability to the volatility in raw material prices and end-product realisations. The ratings also factor in the risks associated with geographical concentration of the company in the southern region of India along with the company's exposure

[1] *OPBIDTA: Operating profit before depreciation, interest, taxes and amortisation*

to regulatory risks as any unfavourable change in the Government policy may impact its raw material availability and price of finished products.

The Stable outlook on the company's long-term rating reflects ICRA's expectation that the company's credit metrics would continue to remain comfortable going forward, supported by its ability to efficiently run its operating assets (plants and mines).

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile, characterised by healthy credit metrics – Steel prices have moderated significantly from the all-time high of Q1 FY2023. This, along with rising raw material costs, led to a contraction in Minera's operating profit margin to ~10.7% in 9M FY2023 from 18.0% in FY2022. Notwithstanding this decline, the company's absolute profits in the current fiscal are expected to remain significantly higher than the pre-pandemic levels. With coal prices now moderating significantly from the high of Q1 FY2023, ICRA expects Minera's profit margins to remain at healthy level in FY2024. Given the company's prudent growth plans, the Total Debt to OPBIDTA[2] stood at 0.9 times in FY2022. ICRA understands that the proposed acquisition of 1,15,000MTPA sponge iron plant located adjacent to the company's existing operations in Bellary has not materialised, and therefore Minera's Total Debt to OPBIDTA is expected to remain in a comfortable range of 0.7-1.0 times in FY2023/ FY2024, supporting the financial profile of the company.

Sizeable cost savings expected going forward following operationalisation of captive iron ore mines – The company has operationalised Auro Minerals Iron Ore Mines in Vijayanagara district in December 2022 and has been able to successfully bid for Nidhi Mines in Bellary district on September 3, 2018. These mines are located in proximity (15-45 km) to the end-use plant. Once fully operational, the same will enable the company to source more than 50% of its total iron ore requirement and help in significant savings, which as per ICRA's estimates, is expected to remain in the range of Rs. 20-25 crore annually.

Integrated nature of operations and experienced management – Minera has manufacturing facilities for pellet, sponge iron and billets along with captive power generation plant. Backward integration into iron ore mining operations would further strengthen the company's operating profile. The company has already operationalised the 84,000-MTPA Auro mines in December 2022 and is looking forward to starting production from the 3,14,000-MTPA Nidhi mines after receiving necessary regulatory clearances in FY2024. Captive iron ore sourcing gives the company a cost advantage over other secondary steel producers that are dependent on sourcing costlier iron ore from the market. The experience of the management and the promoter's demonstrated track record of over 15 years support the operational and financial profiles of the company.

Credit challenges

Exposed to volatility in profits given the cyclicality inherent in the steel industry – The steel industry is cyclical in nature, which is likely to result in volatile cash flows for steel players, including Minera. The cash flows and profitability of the company would remain volatile largely because of fluctuation in spreads emerging from the mismatch in price movement of raw materials and end products. Nevertheless, the company's efficient cost structure emanating from its modest level of integration partly reduces the susceptibility of its profitability to downturns in the steel industry.

Exposure to regulatory risks as any unfavourable change in the Government policy may impact raw material availability and prices of finished products – On May 21, 2022, the Government of India (GoI) imposed a steep 45% duty (from nil earlier) on export of iron ore pellet, post which pellet prices have come under pressure. Although, iron ore prices declined significantly due to imposition of such export duty, partly cushioning the decline in pellet prices but the gross contributions were impacted due to such regulatory actions. Relief to the pellet business came on November 19, 2022, when the duty was withdrawn, and

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[2] *OPBIDTA: Operating profit before depreciation, interest, taxes and amortisation*

prices started inching up thereafter. Apart from the GoI's policy on steel and iron ore/ pellet trade, Minera also remains exposed to regulatory risks in the iron ore mining, where overlapping jurisdiction of Central and State Government entities often leads to delays in getting requisite approvals. Timely receipt of regulatory clearance for operationalising the second mine (Nidhi mine) is a key monitorable from the credit perspective.

Exposed to geographical concentration risks – The company's operations are mainly concentrated in the southern region, exposing it to the geographical concentration risk. A slowdown in steel demand in its key addressable markets in the southern region could lead to an overall decline in its revenues and profits in the future. However, the company has diversified in new markets like Tamil Nadu, Kerala, Maharashtra, Madhya Pradesh and Gujarat, which can reduce geographical concentration risks in the future.

Liquidity position: Adequate

The company's liquidity position is **adequate** supported by healthy retained cash flows and sufficient undrawn limits. The average monthly utilisation of fund-based working capital limits stood low (~Rs. 15 crore was drawn as on March 23, 2023 out of the total sanctioned limit of Rs. 148 crore). The company's undrawn working capital bank lines, free cash and bank balances, and financial flexibility derived from its established relationship with domestic banks support the overall liquidity position of the company. Any large capex undertaken in the future would be a key monitorable from the liquidity perspective.

Rating sensitivities

Positive factors – Achieving stability and ramping up of operations of the captive iron ore mines, leading to an improvement in the cost structure, will be positive for the ratings. Specific metrics that could lead to an upgrade of the long-term rating is Total Debt/OPBITDA of less than 1.5 times on a sustained basis.

Negative factors – Any significant debt-funded capex or a fall in earnings, leading to a deterioration in the debt protection metrics, can exert pressure on the ratings. Specific credit metric that would put pressure on the ratings would be a Total Debt/OPBITDA of more than 2.3 times on a sustained basis.

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

Established in 2006 as KMMI Steel Private Limited and renamed as Minera Steel & Power Private Limited in February 2011, the company is an integrated steel plant, which manufactures MS billets, sponge iron and pellets and has a captive power plant of 12 MW. The company has its works location in Bellary district of Karnataka and registered office in Bangalore. The company is promoted by Mr. H. Noor Ahmed and is managed by his son Mr. Tanveer Ahmed and a professional team. The current capacity of Minera is 8 lakh MTPA for pellets, 1,50,000 MTPA for sponge iron and 1,38,600 MTPA for billets. The company has operationalised its iron ore mine with a capacity of 84,000 MTPA in FY2023 in Vijayanagara district and is in the process of operationalising another iron ore mine with a capacity of 3,14,000 MTPA in Bellary district.

Key financial indicators

Standalone	FY2021	FY2022	9MFY2023*
Operating income (OI)	736.7	1032.2	912.4
PAT	62.9	117.0	80.3**
OPBDIT/OI	19.7%	18.0%	10.7%
PAT/OI	8.5%	11.3%	8.8%***
Total outside liabilities/Tangible net worth (times)	0.8	0.7	-
Total debt/OPBDIT (times)	0.9	0.9	-
Interest coverage (times)	8.5	14.8	12.0

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*Provisional**Profit Before Tax (PBT)***PBT/OI*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years	
	Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	
				March 31, 2023	September 30, 2022	June 16, 2021	June 03, 2021
Term loan	Long Term	102.80	111.3	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	[ICRA]A (Stable)
Non-Fund based	Short Term	138.0	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-
Cash Credit	Long Term	48.0	50	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-
Unallocated	Long Term/ Short Term	41.2	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	**[ICRA]A (Stable)/ [ICRA]A1**	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based (Term Loan)	Simple
Long Term – Fund Based (Cash Credit)	Simple
Short Term – Non-Fund Based	Very Simple
Long Term / Short Term – Unallocated	NA

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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jul-2016	8.20%	Mar-2026	102.80	[ICRA]A (Stable)
NA	Cash Credit	-	-	-	48.00	[ICRA]A (Stable)
NA	Non-fund based	-	-	-	138.00	[ICRA]A1
NA	Unallocated	-	-	-	41.20	[ICRA]A (Stable)/ [ICRA]A1

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
Not Applicable	

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About ICRA Limited:

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