January 30, 2024

Minera Steel and Power Private Limited: Long term rating upgraded to [ICRA]A+ (Stable); Short term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Term Loan)	102.80	70.38	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Long Term – Fund Based (Cash Credit)	48.00	48.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Short Term – Non-Fund Based	138.00	138.00	[ICRA]A1; reaffirmed
Long Term/Short Term – Unallocated	41.20	73.62	[ICRA]A+(Stable) upgraded from [ICRA]A(Stable); / [ICRA]A1 reaffirmed
Total	**330.00**	**330.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the company's better than expected financial performance in 9MFY2024 aided by a combination of expansion of spreads emanating from a moderation in thermal coal costs, and strong domestic demand. The company reported an OPBDITA[1] of around Rs.165 crores in 9MFY2024 and is well poised to achieve its best ever full year operating profits in FY2024. The ratings also take into account the comfortable financial risk profile of the company characterised by healthy credit metrics. The net worth base of the company remains healthy, which coupled with moderate debt levels, resulted in a comfortable capital structure, as reflected by a gearing of 0.3 times as on March 31, 2023. Other credit indicators, too, remained healthy as reflected by interest coverage of 11 times and Total Debt/OPBDITA of 0.9 times in FY2023. With healthy profitability levels being expected going forward, along with reducing debt levels due to scheduled debt repayments, ICRA believes that the credit metrics is likely further improve going forward, with Total Debt OPBDITA expected to remain in a comfortable range of 0.4-0.5 times over FY2024-FY2025. ICRA also understands that the company has no large expansion plans on the anvil in the immediate term, which will support the credit metrics over the near term. The rating 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 risks associated with the cyclicity inherent in the steel industry. The captive power generation facilities, captive iron ore mines, pellet, sponge iron, and billet manufacturing capacities of the company strengthen the overall operating profile of the company due to integration benefits. The ratings also factor in the sizeable cost savings expected going forward from the Auro Mines in Vijayanagara district (operational from December 2022) and Nidhi Mines in Bellary (expected to be operational from Q4 FY2024). While these mines have been won at premiums of 59.5% (for Nidhi mines) and 107.5% (for Auro mines), they are still expected to generate sizeable structural 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 around 40-45% of its total iron ore requirement captively from FY2025.

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] OPBDITA: 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 long-term rating reflects the favourable operating environment for the company with key input prices having moderated significantly, which will support healthy profitability in FY2024. Going forward the expected operationalisation of the Nidhi Mines along with the commissioning of the new upcoming 9 MW solar power plant in FY2025, will lead to structural cost savings for the company and cushion its profits even in a scenario where steel prices remain less buoyant.

Key rating drivers and their description

Credit strengths

Better than expected earnings in the current fiscal; structural cost savings emanating from expected operationalisation of Nidhi captive iron ore mine and 9 MW solar power plant to support FY2025 earnings – The company reported a better than expected financial performance in 9MFY2024 aided by a combination of expansion of spreads emanating from a moderation in thermal coal costs, and strong domestic demand. The company reported an OPBDITA of around Rs.165 crores in 9MFY2024 and is well poised to achieve its best ever full year operating profits in FY2024. The company will also be operationalising the 3,14,000-MTPA Nidhi mines soon given that all necessary regulatory approvals have already been received which along with the commissioning of the new upcoming 9MW solar power plant in FY2025, will lead to structural cost savings for the company and cushion its profits when steel prices remain less buoyant.

Comfortable financial risk profile, characterised by healthy credit metrics – The net worth base of the company remains healthy, which coupled with moderate debt levels, resulted in a comfortable capital structure, as reflected by a gearing of 0.3 times as on March 31, 2023. Other credit indicators, too, remained healthy as reflected by interest coverage of 11 times and Total Debt/OPBDITA of 0.9 times in FY2023. With healthy profitability levels being expected going forward, along with reducing debt levels due to scheduled debt repayments, ICRA believes that the credit metrics is likely further improve going forward, with Total Debt OPBDITA expected to remain in a comfortable range of 0.4-0.5 times over FY2024-FY2025. ICRA also understands that the company has no large expansion plans on the anvil in the immediate term, which will support the credit metrics over the near term.

Sizeable cost savings expected going forward following operationalisation of captive iron ore mines – The company has already operationalised Auro Mines in Vijayanagara district in December 2022 and will be operationalising the Nidhi Mines in Bellary district soon. 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 around 40-45% of its total iron ore requirement captively and thereby aiding in significant cost savings going forward.

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 will also be operationalising the 3,14,000-MTPA Nidhi mines soon given that all necessary regulatory approvals have already been received. 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 profile 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 – Given the company's presence in iron ore mining, which is a highly regulated industry, exposes the company to any unfavourable changes in the Government policy and consequent impact on raw material availability. Besides, the company also remains exposed to volatility in prices of finished products as a result of regulatory interventions by the Government which include imposition of export duties, etc.

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 has been assessed as adequate supported by free cash/bank balances of around Rs.93 crore as of December end 2023 and healthy cash flows from operations of Rs. 120-125 crore being expected in FY2024. Against these sources of cash, the company has a capex commitment of around Rs.45 crore and debt repayment obligations of around ~Rs.27 crore in FY2024, comfortably meeting them from internal sources of cash and yet be left with sufficient cash surpluses. Additionally, the liquidity remains supported by its working capital lines of Rs.148 crore which remains entirely unutilised as of December end 2023.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to significantly improve its revenues and profitability supported by ramp up of operations of the captive iron mines while maintaining comfortable leverage and liquidity position. An increase in the share of value-added/ finished steel products leading to a strengthening of the business risk profile would also remain critical for a rating upgrade.

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/OPBDITA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Iron & Steel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

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 metric tonne per annum (MTPA) for pellets, 1,50,000 MTPA for sponge iron and 1,50,000 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 (Audited)

Standalone	FY2022	FY2023
Operating income	1029.7	1243.6
PAT	109.5	90.5
OPBDIT/OI	17.8%	11.4%
PAT/OI	10.6%	7.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	0.9	0.9
Interest coverage (times)	12.9	11.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Jan 30, 2024	Mar 31, 2023	Sep 30, 2022	Jun 16, 2021	Jun 03, 2021	-
1	**Term loan**	Long Term	70.38	70.38	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-
2	**Non-Fund based**	Short Term	138.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-	-
3	**Cash Credit**	Long Term	48.00	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
4	**Unallocated**	Long Term/ Short Term	73.62	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	-

Complexity level of the rated instruments

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, are 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	-	Mar-2026	70.38	[ICRA]A+ (Stable)
NA	Cash Credit	-	-	-	48.00	[ICRA]A+ (Stable)
NA	Non-fund based	-	-	-	138.00	[ICRA]A1
NA	Unallocated	-	-	-	73.62	[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 – 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.

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