April 19, 2024

Amalgam Steel Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund based - Term Loans	189.00	233.25	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced amount
Long-Term – Fund Based Limits	225.00	225.00	[ICRA]BBB+ (Stable); reaffirmed
Long-Term – Non Fund-Based Facilities	87.00	87.00	[ICRA]BBB+ (Stable); reaffirmed
Short Term Loans**	(225.00)	(225.00)	[ICRA]A2; reaffirmed
Total	**501.00**	**545.25**	

**Instrument details are provided in Annexure-1; ** sub-limit of fund-based limit*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Amalgam Steel Private Limited (ASPL), Amalgam Steel & Power Limited (AS&PL), Crest Steel and Power Private Limited (CSPPL) and Topworth Steels and Power Private Limited (TSPPL), referred to as the Group. For arriving at its ratings, ICRA has noted the common management, along with the close financial and operational linkages among these companies.

The ratings action factors in the expected deterioration of leverage indicators of the Group from FY2025 and is likely to stay elevated at least till FY2026. The Group, which was already on a debt-funded growth phase since FY2023, starting with the acquisition of CSPPL, has further intensified its growth ambitions with a sizeable debt-funded brownfield expansion planned at CSPPL and the debt-funded acquisition of TSPPL, which was concluded in January 2024. The cumulative outlay towards the brownfield expansion planned at CSPPL and the acquisition of TSPPL stands at around Rs.870 crore, which is higher by almost 55% than the earlier estimate factored in by ICRA at the time of the last rating exercise. ICRA has also noted the elevated working capital requirements of the Group (NWC/OI)[1] of 39% and 25% in FY2022 and FY2023, respectively), which, along with the sizeable increase in long-term advances made in FY2023, primarily on account of investments made in inter-corporate deposits, has led to high borrowing dependence and constrained business return indicators. In FY2023, aggressive debt funded expansion plans, along with the contraction in earnings due to input cost pressure, led to the Group's Gross External Debt/OPBDITA significantly deteriorating to 4.2 times (Net External Debt/OPBDITA of 3.7 times). While the expected recovery in earnings in FY2024 is likely to moderate the Gross External Debt/OPBDITA to ~2.5 times (Net External Debt/OPBDITA of ~2.2 times), ICRA expects the Group's gross external debt levels in FY2025 to be higher by 70% than the earlier estimates. This is expected to again put pressure on the leverage indicators in the next two fiscals, with Gross External Debt/OPBDITA deteriorating to 2.8-3.2 times (Net External Debt/OPBDITA between 2.5-2.9 times) in FY2025 and FY2026, which is significantly weaker than ICRA's earlier estimates of 1.3-2.1 times (Net External Debt/OPBDITA between 1.2-1.9 times) over the same period.

The ratings also remain constrained by the Group's exposure to the cyclicality inherent in the steel industry and susceptibility of the Group's profitability to the volatility in raw material prices and end-product realisations. While these ongoing expansion plans carry the potential of higher future earnings, sizeable borrowing dependence makes the company less resilient to withstand industry downcycles. The ratings also remain constrained by the project execution risks associated with the planned

[1] Net working capital by operating income ratio

expansion at CSPPL, being incurred over FY2024-FY2026, and the large advances extended by the Group to its holding company, which has adversely impacted the business return indicators.

The ratings, however, continue to positively factor in the extensive experience of the promoters, who have around five decades of experience in iron ore mining and steel businesses. The promoter groups operate iron ore mines in Odisha and have approval to cumulatively mine 4.2 million tonnes per annum (mtpa) of iron ore, annually. Besides, they operate steel plants independently, having facilities to manufacture sponge iron, billets and rebars. The ratings also consider the acquisitions made in the recent past, which include ASPL, AS&PL, CSPPL and TSPPL, consummated at competitive capital costs, which supports the business return indicators. The Group has also demonstrated a successful track record of quickly turning around the operations of ASPL, AS&PL and CSPPL. The ratings also factor in the location-specific advantages of the Group's plants, which aid in operational efficiency.

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group's near-term earnings will be supported by the healthy steel consumption growth coupled with stable key raw material prices.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The Group is promoted by the Kolkata-based Atha and Misra Groups. The promoters have around five decades of experience in iron ore mining and steel businesses. At present, they operate iron ore mines in Odisha and have approval to cumulatively mine 4.2 mtpa of iron ore, annually. Besides, they operate steel plants independently, having facilities to manufacture sponge iron, billets and rebars.

Recent acquisitions made at competitive capital costs support business return indicators – The Group has made four acquisitions in the recent past, which include ASPL, AS&PL, CSPPL and TSPPL through the IBC process, consummated at competitive capital costs. ICRA draws comfort from the competitive acquisition prices for these assets, which support the business return indicators.

Successful track record of turning around operations of acquired entities in the past – The Group has also demonstrated a successful track record of quickly turning around the operations of ASPL, AS&PL and CSPPL. The Group's ability to quickly ramp up operations at optimum efficiency level in TSPPL, which was recently acquired in January 2024, will be critical from the rating perspective and hence will remain a key rating monitorable.

Location-specific advantage of the plant – ASPL and AS&PL are both located in the same premises near Jamshedpur in Jharkhand, which is in proximity to iron ore mines, thus ensuring regular supply of iron ore fines (key raw material for pellet manufacturing) and low transportation costs. The pellets manufactured by ASPL are consumed by AS&PL, which are used for making sponge iron and the balance is sold in the open market. AS&PL also has a railway siding, which enables it to procure imported thermal coal via railway from nearby ports 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 industries for the billets manufactured. Moreover, ICRA notes that CSPPL and TSPPL are located in adjacent plots, which along with the presence of a railway siding at CSPPL, will help bring in operational efficiencies and reduce freight cost for these two units.

Credit challenges

Leverage indicators expected to deteriorate from FY2025 due to sizeable debt-funded growth plans – The Group, which was already on a debt-funded growth phase since FY2023, starting with the acquisition of CSPPL, has further intensified its growth ambitions with a sizeable debt-funded brownfield expansion planned at CSPPL and the debt-funded acquisition of TSPPL, which was concluded in January 2024. The cumulative outlay towards the brownfield expansion planned at CSPPL and the acquisition of TSPPL stands at around Rs.870 crore, which is higher by almost 55% than the earlier level estimated by ICRA at the time of the last rating exercise. The higher outlay towards the growth capex, elevated working capital requirements of the Group and the sizeable increase in long-term advances made in FY2023, primarily on account of investments made in inter-corporate deposits, led to high borrowing dependence and constrained its business return indicators. In FY2023, aggressive debt funded expansion plans, along with the contraction in earnings due to input cost pressure, led to the Group's Gross External Debt/OPBDITA significantly deteriorating to 4.2 times (Net External Debt/OPBDITA of 3.7 times). While the expected recovery in earnings in FY2024 is likely to moderate the Gross External Debt/OPBDITA to ~2.5 times (Net External Debt/OPBDITA of ~2.2 times), ICRA expects the Group's gross external debt levels in FY2025 to be higher by 70% than the earlier estimates. This is expected to again put pressure on the leverage indicators in the next two fiscals, with Gross External Debt/OPBDITA deteriorating to 2.8-3.2 times (Net External Debt/OPBDITA between 2.5-2.9 times) in FY2025 and FY2026, which is significantly weaker than ICRA's earlier estimates of 1.3-2.1 times (Net External Debt/OPBDITA between 1.2-1.9 times) over the same period.

Exposed to cyclicality inherent in the steel industry – The Group is exposed to cyclicality inherent in the steel industry, which leads to volatility in revenue and cash flows for the industry players, including the Group. The cash flows and profitability of the Group would remain volatile largely because of fluctuation in spreads emanating from the mismatch in price movement of raw materials and end products.

Large advances extended by the Group to the holding company affects business return indicators – The Group has extended large advances of around Rs.176 crore as on March 31, 2023 to one of its holding companies, Transform Steel Private Limited, which adversely impacted the business return indicators.

Exposed to project execution risks associated with the planned expansion at CSPPL – The Group has a large-sized capex plan at the recently acquired CSPPL, where there is potential of substantial unlocking of value for units, which were left unfinished by the erstwhile promoters. The project includes finishing the balance work towards completion of the unexecuted portion of the 1.5-mt-per-annum pellet plant, 0.25-mt-per-annum DRI unit, 0.08-mt-per-annum billet unit and 35-MW captive power plant at an estimated outlay of around Rs.610 crore (includes margin money for working capital), being incurred over FY2024-FY2026. Thus, the Group would remain exposed to associated project execution risks over the medium term.

Liquidity position: Adequate

The Group's liquidity profile has been assessed as **Adequate** with undrawn working capital lines of around Rs.176 crore as of end-March 2024. Notwithstanding the Group's growth plans, for which the long-term funding is already in place (includes upfront promoter margins as stipulated in bank sanction letters), the Group's liquidity would continue to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group is able to complete the ongoing expansion plan at CSPPL within the budgeted time and costs and quickly ramp up operations, leading to commensurate increase in earnings and improvement in credit metrics on a sustained basis, while maintaining a comfortable liquidity profile. Specific metric that can lead to a rating upgrade includes Total external debt/OPBDITA of less than 2.3 times on a sustained basis.

Negative factors – Pressure on the ratings may emerge in case of a significant time/cost overrun in the upcoming planned expansion at CSPPL, or any other large capex/investment, leading to the Total external debt/OPBDITA remaining above 3.0 times on a sustained basis. The ratings could also come under pressure in case of any major advances/investment made to related parties/outside entities, resulting in a deterioration in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of ASPL, AS&PL, CSPPL and TSPPL and has taken a consolidated rating view owing to the common management, close financial and operational linkages among these companies.

About the company

Amalgam Steel Private Limited is a JV between Atha and Misra Groups and 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. In FY2023, ASPL acquired a 47.5% equity stake in CSPPL through the IBC route, while the balance 47.5% stake was held by AS&PL and 5% by the consortium banks. CSPPL has a DRI plant of 0.23 mt per annum, a steel melt shop (SMS) of 0.07 mt per annum, and a waste-heat recovery based captive power plant (CPP) of 12 MW. In addition, it has an unfinished capital-work-in-progress comprising a 1.5-mt-per-annum pellet plant, 0.25-mt-per-annum DRI plant, 0.08-mt-per-annum billet unit and 35 MW of CPP. In January 2024, the Group concluded the acquisition of Topworth Steels and Power Private Limited, through the IBC route.

Key financial indicators (Audited)

	ASPL (Standalone)		ASPL + AS&PL + CSPPL (Consolidated***)	
	FY2022	FY2023	FY2022	FY2023
Operating Income (Rs. crore)	1446.8	1069.6	1,988.1	2,978.0
PAT (Rs. crore)	132.8	40.4	149.5	-373.6
OPBDIT/OI (%)	11.5%	7.7%	11.1%	5.6%
PAT/OI (%)	9.2%	3.8%	7.5%	-12.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.6	0.7	0.7
Total Debt/OPBDIT (times)	4.0	7.3	3.7	5.2
Total External Debt/OPBDIT	2.6	5.2	2.9	4.2
Interest Coverage (times)	7.9	1.6	6.6	2.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;
****Consolidation done by ICRA based on elimination of important inter-group transactions based on public disclosures; TSPPL acquired in FY2024*

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 21, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 19, 2024	Dec 22, 2023	Sep 15, 2022	Sep 29, 2021
1	**Term Loans**	Long term	233.25	184.88	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Fund Based Limits**	Long term	225.00	--	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
3	**Non Fund-Based Facilities**	Long term	87.00	--	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]A- (Stable)**
4	**Short Term Loans***	Short-Term	(225.00)	--	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2+**	**[ICRA]A2+**

**sub-limit of fund-based limit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund Based Limits	Simple
Non Fund-Based Facilities	Very Simple
Short Term Loans	Very 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 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loans**	FY2019	NA	FY2031	233.25	**[ICRA]BBB+ (Stable)**
NA	**Fund Based Limits**	NA	NA	NA	225.00	**[ICRA]BBB+ (Stable)**
NA	**Non Fund-Based Facilities**	NA	NA	NA	87.00	**[ICRA]BBB+ (Stable)**
NA	**Short Term Loans***	NA	NA	NA	(225.00)	**[ICRA]A2**

*Source: Company; *sub-limit of fund-based limit*

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

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Amalgam Steel & Power Limited	Group company	Full consolidation
Crest Steel and Power Private Limited	47.5% owned by ASPL and 47.5% owned by AS&PL	Full consolidation
Topworth Steels and Power Private Limited	100% owned by AS&PL	Full consolidation

Source: Company

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Ritabrata Ghosh
+91 33 7150 1107
ritabrata.ghosh@icraindia.com

Deepayan Ghosh
+91 33 7150 1220
deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

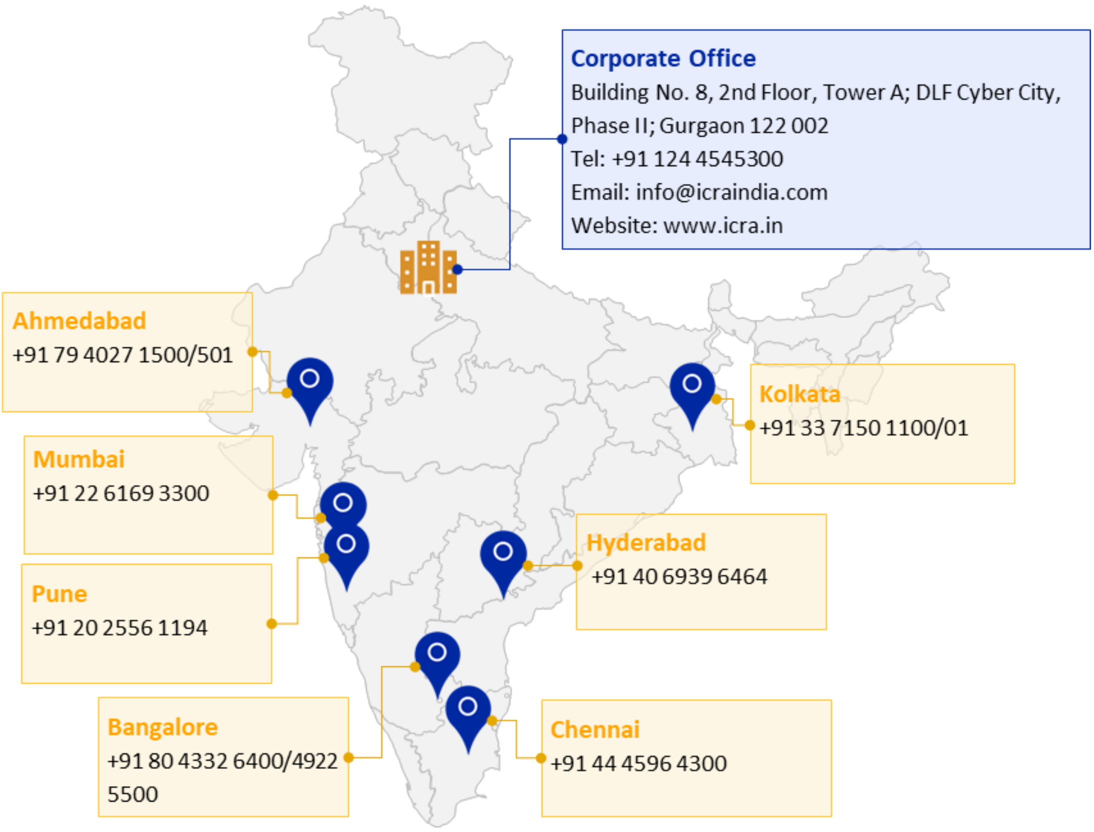
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.