

December 13, 2024

Topworth Steels & Power Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term Loans	160.00	[ICRA]BBB+ (Negative); assigned
Short term- Non fund based	110.00	[ICRA]A2; assigned
Long Term – Fund Based - Others	81.00	[ICRA]BBB+ (Negative); assigned
Total	351.00	

*Instrument details are provided in Annexure-1

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 (TSPP), 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 assigned ratings considers the weaker than expected financial performance of the Group in FY2024 mainly due to the subdued performance of the pellet business and expectation of slower than expected recovery in FY2025. Pellet production in the state of Jharkhand, where the group's pellet operations are located, has seen a sharp rise in pellet production with production going up almost 54% on a YoY basis being much higher the national average of around 12%. The supply glut has led to a weakening of pellet spreads for manufacturers located in Jharkhand including the Group. In addition, in the current fiscal, pellet spreads have remained weaker for the broader industry due to unfavourable raw material-end product price movement, which will lead to another year of subdued performance for the Group's pellet operations leading to the consolidated earnings being much weaker than ICRA's earlier estimates. This along with the Group's high debt levels, a large part of which was taken to fund the inorganic growth plans for the acquisition of CSPPL and TSPP has led to the leverage indicator (FY24: Total external Debt/OPBDITA of 4.8 times against ICRA estimate of 2.5 times) being higher than ICRA's earlier estimates and is likely to remain higher at above 3 times in FY2025 and FY2026 owing to the planned debt funded expansion at CSPPL, before improving from FY2027 onwards. ICRA has also noted the elevated working capital requirements of the Group ((NWC/OI)¹ of 25% and 30% in FY2023 and FY2024, respectively) has led to high borrowing dependence and constrained business return indicators. A sizeable part of the working capital requirements is on account of short-term advances made to related parties.

The ratings also remain constrained by the Group's exposure to the cyclicity 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 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. ICRA has noted the delay in receipt of Environmental Clearance (EC) for the expansion project planned at CSPPL due to regulatory hurdles, which can push back the intended benefits of the acquisition, as the expansion plan remains key to unlocking the full potential of the asset, which in turn can impact the future credit metrics and 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

¹ Net working capital by operating income ratio

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.

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 December 2023, 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 remain subdued – Weaker than expected financial performance of the Group along with the Group's high debt levels, a large part of which was taken to fund the inorganic growth plans for the acquisition of CSPPL and TSPPL has led to the leverage indicator (FY24: Total external Debt/OPBDITA of 4.8 times against ICRA estimate of 2.5 times) being higher than ICRA's earlier estimates and is likely to remain higher at above 3 times in FY2025 and FY2026 owing to the planned debt funded expansion at CSPPL, before improving from FY2027 onwards.

Exposed to cyclicity inherent in the steel industry – The Group is exposed to cyclicity 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.178 crore as on March 31, 2024 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; prospect of delay in receipt of EC can push the intended benefits farther into future adversely impacting credit metrics and business return indicators – 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. ICRA has noted the delay in receipt of EC for the expansion project planned at CSPPL due to regulatory hurdles, which can push back the intended benefits of the acquisition, as the expansion plan remains key to unlocking the full potential of the asset, which in turn can impact the future credit metrics and business return indicators.

Liquidity position: Adequate

The Group’s liquidity profile has been assessed as **Adequate** with undrawn working capital lines of around Rs.92 crore and free cash/bank balances of around Rs.29 crore as of end-October 2024. Notwithstanding the Group’s growth plans, for which the long-term funding is already in place, the Group’s liquidity would continue to remain adequate, going forward.

Rating sensitivities

Positive factors – The Outlook could be revised to Stable if the group is able to significantly improve consolidated earnings on a sustained basis leading to improvement in credit metrics. Additionally, the ratings could witness upward pressure if the company is able to complete the ongoing expansion plan at CSPPL within 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 metrics that can lead to a rating upgrade includes Total external debt/OPBITDA being lower than 2 times on a sustained basis.

Negative factors – Pressure on the ratings may emerge in case the group earnings fail to materially improve going forward leading to continued pressure on credit metrics. Additionally, downward pressure on the ratings could emerge in case of a significant time/cost overrun in the upcoming planned expansion at CSPPL or any other large capex/investment. Specific metrics that could lead to ratings downgrade include total external debt-to-operating profit ratio remaining above 3.0 times on a sustained basis. The ratings could also come under pressure in case of any major cash outflow to group 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

Topworth Steels and Power Private Limited (TSPPL) was acquired by Amalgam Steel & Power Limited (AS&PL) in December 2023 through an insolvency resolution process. TSPPL has a DRI plant of 0.19 mt per annum, a steel melt shop (SMS) of 0.14

mt per annum, rolling mill of 0.12 mt per annum and captive power plant of 15.3 MW. The manufacturing facility of the company is in Chhattisgarh.

Key financial indicators (Audited)

	TSPPL (Standalone)		ASPL + AS&PL + CSPPL +TSPPL (Consolidated***)	
	FY2023	FY2024	FY2023	FY2024
Operating Income (Rs. crore)	482.7	606.6	2,977.8	2,904.5
PAT (Rs. crore)	-30.2	-82.6	-373.6	-23.9
OPBDIT/OI (%)	-2.2%	1.9%	5.6%	6.7%
PAT/OI (%)	-6.3%	-13.6%	-12.5%	-0.8%
Total Outside Liabilities/Tangible Net Worth (times)	NM	-4.7	0.7	0.9
Total Debt/OPBDIT (times)	NM	NM	5.2	6.2
Total External Debt/OPBDIT	NA	NA	4.2	4.8
Interest Coverage (times)	NM	1.5	2.2	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 December 2023; NM – Not Meaningful

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Dec 13, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term Loans	Long term	160.00	[ICRA]BBB+ (Negative)	-	-	-	-	-	-
Non fund based	Short term	110.00	[ICRA]A2	-	-	-	-	-	-
Fund Based - Others	Long term	81.00	[ICRA]BBB+ (Negative)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loans	Simple
Short term- Non fund based	Very Simple
Long Term – Fund Based - Others	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	Long Term – Fund Based – Term Loans	FY2025	NA	FY2033	160.00	[ICRA]BBB+ (Negative)
NA	Short term- Non fund based	NA	NA	NA	110.00	[ICRA]A2
NA	Long Term – Fund Based – Others	NA	NA	NA	81.00	[ICRA]BBB+ (Negative)

Source: Company

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

Company Name	Ownership	Consolidation Approach
Amalgam Steel & Power Limited	-	Full consolidation
Amalgam Steel Private Limited	-	Full consolidation
Crest Steel and Power Private Limited	47.5% owned by ASPL and 47.5% 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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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