December 17, 2024

# Amalgam Steel & Power Limited: Ratings reaffirmed; Outlook revised to Negative

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term – Fund Based – Term Loans | 116.00 | 77.20 | [ICRA]BBB+ (Negative); reaffirmed; Outlook revised to Negative from Stable |
| Long Term – Fund Based – Cash credit | 165.00 | 110.00 | [ICRA]BBB+ (Negative); reaffirmed; Outlook revised to Negative from Stable |
| Short Term Non-fund based | 170.00 | 155.00 | [ICRA]A2; reaffirmed |
| Short term interchangeable/WCDL** | (165.00) | (110.00) | [ICRA]A2; reaffirmed |
| **Total** | **451.00** | **342.20** | |

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

## Rationale

To arrive 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. ICRA has noted the common management, along with the close financial and operational linkages among these companies.

The assigned ratings consider 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 recovery in FY2025. The Group's pellet operations are in Jharkhand. Pellet production rose sharply in Jharkhand in FY2024 with the output going up almost 54% YoY, much higher the national average of around 12%. The supply glut weakened the pellet spreads for the manufacturers in Jharkhand, including the Group. Moreover, in the current fiscal, pellet spreads have remained weak for the broader industry due to unfavourable raw material-end product price movement, resulting in another year of subdued performance for the Group's pellet operations and weaker-than-estimated consolidated earnings.

Moreover, the Group has high debt levels, a large part of which was taken to fund the acquisition of CSPPL and TSPPL. The weaker-than-expected financial performance and the elevated debt have kept the leverage indicator higher than ICRA's earlier estimates; the total external debt/OPBDITA was 4.8 times in FY2024 against ICRA's estimate of 2.5 times. The leverage indicator is likely to remain high 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) which has increased the borrowing dependence and constrained the business return indicators. A sizeable part of the working capital requirements is on account of short-term advances made to related parties, some of which don't have significant business linkages.

The ratings also remain constrained by the Group's exposure to the cyclicality inherent in the steel industry and the 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 the receipt of

[1] *Net working capital by operating income ratio*

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 the 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, at competitive capital costs, which support 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 the 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, at competitive capital costs. ICRA draws comfort from the competitive acquisition prices of these assets, which support the business return indicators.

**Successful track record of turning around operations of acquired entities** – The Group has 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 the operations at optimum efficiency in TSPPL, acquired recently in December 2023, will be critical from a rating perspective and will be a key monitorable.

**Location-specific advantage of the plants –** ASPL and AS&PL are both located in the same premises near Jamshedpur in Jharkhand, which is in proximity to the 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 to make 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 the railway network from nearby ports and reduces its overall freight costs substantially. Besides, AS&PL's proximity to the 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 at adjacent plots, which along with the presence of a railway siding at CSPPL, will help bring in operational efficiencies and reduce the freight cost for these two units.

### Credit challenges

**Leverage indicators remain subdued** – The Group's weaker-than-expected financial performance along with its high debt levels, a large part of which was taken to fund the acquisitions of CSPPL and TSPPL, has kept the leverage indicator higher than ICRA's earlier estimates (Total external debt/OPBDITA of 4.8 times in FY2024 against ICRA's estimate of 2.5 times). The leverage indicator is likely to stay elevated at above 3 times in FY2025 and FY2026 owing to the planned debt funded expansion at CSPPL, before improving from FY2027 onwards.

**Exposed to cyclicality inherent in steel industry –** The Group is exposed to the cyclicality inherent in the steel industry, making the revenue and cash flow of the industry players volatile, including that of the Group. The Group's cash flow and profitability would remain volatile largely because of the fluctuation in the price spreads between raw materials and the end products.

**Large advances extended to holding company affect 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 at CSPPL** – The Group has a large-sized capex plan at the recently acquired CSPPL, where there is a potential of substantial unlocking of value for the units that were left unfinished by the erstwhile promoters. The project includes completion of the unexecuted portion of the 1.5-mt-per-annum pellet plant, a 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 project execution risks over the medium term. ICRA has noted the delay in the receipt of environmental clearance for the planned expansion at CSPPL due to regulatory hurdles, which can push back the intended benefits of the acquisition. 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 October-end 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.

## Rating sensitivities

**Positive factors** – The outlook could be revised to Stable if the Group is able to significantly improve its consolidated earnings on a sustained basis, leading to an improvement in the credit metrics. Additionally, the ratings could be upgraded if the company is able to complete the ongoing expansion plan at CSPPL within the budgeted time and costs and quickly ramp up the operations, leading to a commensurate increase in earnings and improvement in credit metrics on a sustained basis while maintaining a comfortable liquidity profile. Specific metrics for upgrade include total external debt/OPBITDA of less than 2 times on a sustained basis.

**Negative factors** – Pressure on the ratings may emerge if the Group earnings fail to materially improve, going forward, resulting in continued pressure on the credit metrics. Additionally, significant time/cost overrun in the planned expansion at CSPPL or any other large capex/investment may weigh on the ratings. Specific metrics for downgrade include the 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 of the liquidity profile.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>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

AS&PL (erstwhile Adhunik Alloys & Power Limited) was earlier a part of the Adhunik Group. It has a 2,31,000-metric-tonnesper-annum (mtpa) sponge iron plant, 1,58,400-mtpa billet plant and 30-megawatt captive power plant near Jamshedpur in Jharkhand. AS&PL, along with three other Adhunik Group companies, viz. Adhunik Metaliks Limited, Orissa Manganese & Minerals Limited and Zion Steel Limited, were referred to the Kolkata bench of the National Company Law Tribunal (NCLT) in 2017. 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 December 2023, the Group concluded the acquisition of Topworth Steels and Power Private Limited, through the IBC route.

**Key financial indicators (Audited)**

| | AS&PL (Standalone) | | ASPL + AS&PL + CSPPL +TSPPL (Consolidated***) | |
|---|---|---|---|---|
| | FY2023 | FY2024 | FY2023 | FY2024 |
| **Operating Income (Rs. crore)** | 1,368.5 | 1,553.5 | 2,977.8 | 2,904.5 |
| **PAT (Rs. crore)** | -95.0 | 45.3 | -373.6 | -23.9 |
| **OPBDIT/OI (%)** | 3.3% | 6.0% | 5.6% | 6.7% |
| **PAT/OI (%)** | -6.9% | 2.9% | -12.5% | -0.8% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 0.4 | 0.7 | 0.7 | 0.9 |
| **Total Debt/OPBDIT (times)** | 4.9 | 5.0 | 5.2 | 6.2 |
| **Total External Debt/OPBDIT** | NA | NA | 4.2 | 4.8 |
| **Interest Coverage (times)** | 2.2 | 2.7 | 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*

## Status of non-cooperation with previous CRA – Not Applicable

## Any other information: None

## Rating history for past three years

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | FY2024 | | FY2023 | | FY2022 | |
| **Instrument** | **Type** | **Amount Rated (Rs Crore)** | **Dec 17, 2024** | **Date** | **Rating** | **Date** | **Rating** | **Date** | **Rating** |
| **Term Loans** | Long term | 77.20 | [ICRA]BBB+ (Negative) | Dec 22, 2023 | [ICRA]BBB+ (Stable) | Sep 15, 2022 | [ICRA]A- (Stable) | Sep 29, 2021 | [ICRA]A- (Stable) |
| **Fund Based Limits** | Long term | 110.00 | [ICRA]BBB+ (Negative) | Dec 22, 2023 | [ICRA]BBB+ (Stable) | Sep 15, 2022 | [ICRA]A- (Stable) | Sep 29, 2021 | [ICRA]A- (Stable) |
| **Long Term - Interchangeable** | Long term | - | - | Dec 22, 2023 | - | Sep 15, 2022 | - | Sep 29, 2021 | [ICRA]A- (Stable) |
| **Non Fund-Based Facilities** | Short term | 155.00 | [ICRA]A2 | Dec 22, 2023 | [ICRA]A2 | Sep 15, 2022 | [ICRA]A2+ | Sep 29, 2021 | [ICRA]A2+ |
| **Short Term Loans*** | Short term | (110.00) | [ICRA]A2 | Dec 22, 2023 | [ICRA]A2 | Sep 15, 2022 | [ICRA]A2+ | Sep 29, 2021 | - |

**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** | FY2020 | NA | FY2026 | 77.20 | **[ICRA]BBB+ (Negative)** |
| **NA** | **Fund Based Limits** | NA | NA | NA | 110.00 | **[ICRA]BBB+ (Negative)** |
| **NA** | **Non Fund-Based Facilities** | NA | NA | NA | 155.00 | **[ICRA]A2** |
| **NA** | **Short Term Loans*** | NA | NA | NA | (110.00) | **[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 Private 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

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

**Vikram V**
+91 40 4547 4829
vikram.v@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.

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# ICRA Limited

## Registered Office

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

## Branches