

June 22, 2020

## Amalgam Steel Private Limited: [ICRA]BBB+ (Stable) reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Amount (Rs. crore)	Rated Rating Action
Term loan	125.00	100.00	[ICRA]BBB+ (Stable) reaffirmed
Cash credit	147.00	146.80	[ICRA]BBB+ (Stable) reaffirmed
Long Term Non-fund based	9.00	9.00	[ICRA]BBB+ (Stable) reaffirmed
<b>Total</b>	<b>281.00</b>	<b>255.80</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes into account ICRA's expectation that ASPL's revenues and profitability in FY2021 would be supported by buoyant pellet demand from China despite a weak domestic demand environment following the Covid-19 pandemic. ASPL has increased its export presence in the current fiscal and has been earning higher margins on the same than domestic sales due to favourable export realisations and a weak INR. The rating also considers the proximity of ASPL's plant to iron ore mines, which ensures smooth availability of raw materials and results in low freight costs. The rating also considers the extensive experience of ASPL's promoters in the steel industry and the company's established relationship with reputed suppliers, which ensure uninterrupted supply of raw materials. ASPL is a 50:50 joint venture (JV) between Kolkata-based Atha and Misra Groups, which have interests in mining, steel and solar power generation businesses. Going forward, expected procurement from the Group's captive mines would reduce the freight costs further as these mines are located closer to the ASPL's plant than the ones from which the company is currently procuring iron ore. The company also has access to the railway siding of Amalgam Steel & Power Limited (AS&PL; erstwhile Adhunik Alloys & Power Limited; rated [ICRA]BBB+/Stable), a Group company, which is in the same complex.

The strengths are, however, partially offset by the company's aggressive capital structure at present, owing to largely debt-funded acquisition of ASPL through the insolvency resolution process. While the total debt stood at Rs. 384 crore (including interest-free unsecured loans of Rs. 166 crore from the promoters) as on March 31, 2020, the company management's stated intent to convert the unsecured loans into equity would reduce the overall debt and result in a better capital structure. The rating also factors in the exposure of the company's profitability to volatility in pellet and iron ore prices. ICRA notes that any significant contraction in the spread between pellet and iron ore fines prices would affect ASPL's cash generating ability, which in turn would exert pressure on its liquidity profile. The rating also factors in the company's exposure to regulatory risks as any unfavourable change in the Government's policy may impact iron ore availability and prices.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectation that ASPL would benefit from the extensive experience of its promoters in the steel industry and the healthy pellet demand from China in FY2021.

## Key rating drivers and their description

### Credit strengths

**Expectation of a healthy profitability in FY2021** - ASPL reported an operating income of Rs. 519.2 crore and an operating margin of 17.7% in FY2020 on the back of healthy domestic demand. Despite weakness in domestic demand in the current fiscal due to the Covid-19 pandemic, ASPL's revenue growth and profitability are likely to remain healthy, supported by buoyant pellet demand from China. China's crude steel production growth stood at 1.9% in the first five months of CY2020 and its ore and pellet imports from India have remained elevated in the last few months due to supply disruption in Brazil. At present, the difference between domestic and export gross contribution on pellet manufacturing is ~Rs. 1,000 per MT, which in turn would keep ASPL's share of exports and its profitability high in the near term.

**Location-specific advantage of the plant** - The company operates a 1.2-mtpa pellet plant near Jamshedpur, in Jharkhand. The plant is located close to iron ore mines, which ensures regular supply of iron ore (key raw material for pellet manufacturing) and results in low transportation costs. The company also has access to the railway siding of AS&PL, which enables ASPL to procure iron ore via rail and results in lower freight cost.

**Extensive experience of promoters and linkages with Atha and Misra Group companies** - ASPL is promoted by Kolkata-based Atha and Misra Groups. The promoters have around five decades of experience in iron ore mining and steel business. Currently, they operate iron ore mines in Odisha and have approval to mine 5.6 mt iron ore annually. Besides, they also have steel-making capacity of 0.3 mtpa. ASPL is currently doing conversion job for AS&PL. Going forward, iron ore procurement from mines of Atha/Misra Groups would reduce the freight costs further as these mines are located closer to ASPL's plant. ICRA believes the synergies arising from ASPL's association with other Group companies would support its operations in the medium-to-long term.

### Credit challenges

**Aggressive capital structure at present** - ASPL's capital structure remains leveraged at present owing to the debt-funded acquisition of ASPL through the insolvency resolution process. ASPL's total debt as on March 31, 2020 stood at Rs. 384 crore, which comprised term loans of Rs. 100 crore, interest-free unsecured loans from promoters of Rs. 166 crore, working capital borrowings of Rs. 76 crore and cumulative redeemable preference shares of Rs. 42 crore. The gearing stood at 2.2 times as on March 31, 2020. However, going forward, improving net worth owing to healthy accretion to reserves and the proposed conversion of the entire unsecured loans into equity would result in a better capital structure.

**Exposure to price risks** - Pellet prices have witnessed significant volatility in the past. Domestic pellet industry continues to be characterised by overcapacity, which coupled with its fragmented nature, exert pricing pressure on pellet manufacturers. ASPL's ability to shield its margins from any sharp decline in spread between prices of pellet and iron ore fines would remain a key rating sensitivity.

**Exposure to regulatory risks** - ASPL, like other pellet manufacturers, remains exposed to regulatory risks, as any unfavourable change in the Government policy may impact its raw material availability and prices.

## Liquidity position: Adequate

ASPL's liquidity position remains adequate as it does not have any major capex in the near term and its cash generation from the business is likely to be much higher than its debt repayment obligations of Rs. 31.3 crore in FY2021. The company's liquidity is also supported by its unencumbered cash balance of Rs. 33 crore as on March 31, 2020 and unutilised working capital limits of Rs. 86 crore as on May 31, 2020 (backed by commensurate drawing power).

## Rating sensitivities

**Positive triggers** – ICRA could upgrade ASPL's rating if there is a sustainable rise in spread between prices of pellet and fines, resulting in improved profitability, and/or if the total debt-to-operating profit ratio remains below 2 times on a sustained basis.

**Negative triggers** – Pressure on the rating may emerge in case of a significant downturn in the industry conditions, leading to a persistent decline in pellet realisation, and/or if the total debt-to-operating profit ratio remains above 3.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Entities in the Ferrous Metals Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

ASPL is a JV between Atha and Misra Groups and currently 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. Currently, ASPL has given its plant on lease to OMML, which has licence to purchase iron ore fines. OMML sells pellets to ASPL, which in turn sells it in the open market. Apart from this, OMML also does conversion job for AS&PL.

As per the provisional financials for FY2020, ASPL reported a profit before tax (PBT) of Rs. 56.1 crore on an operating income (OI) of Rs. 519.2 crore (including conversion sales done by OMML) compared to a profit after tax (PAT) of Rs. 24.3 crore on an OI of Rs. 205.3 crore in November-March 2019 (post acquisition).

## Key financial indicators

	4M FY2019*	FY2020 (Prov)
Operating Income (Rs. crore)	205.3	519.2
PAT (Rs. crore)	24.3	56.1 <sup>^</sup>
OPBDIT/OI (%)	14.9%	17.7%
RoCE (%)	41.1%	-
Total Outside Liabilities/Tangible Net Worth (times)	3.1	-
Total Debt/OPBDIT (times)	3.8	4.2
Interest Coverage (times)	2.1	5.4
DSCR	4.1	1.4

*Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; \*From November 22, 2018 to March 31, 2019; ^PBT; Source: ASPL*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					22-Jun-2020	23-Dec-2019	11-Sep-2019	13-Mar-2019	
1	Term loan	Long Term	100.00	100.00*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Cash credit	Long Term	146.8	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	Non fund-based	Long Term	9.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

Amount in Rs. crore; \*As on March 31, 2020

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
-	Term loan	FY2019	-	FY2024	100.0	[ICRA]BBB+ (Stable)
-	Cash credit	-	-	-	146.8	[ICRA]BBB+ (Stable)
-	Bank guarantee	-	-	-	9.0	[ICRA]BBB+ (Stable)

Source: ASPL

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