Amalgam Steel Private Limited

March 13, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term loan	150.00	[ICRA]BBB+ (Stable) assigned
Cash credit	50.00	[ICRA]BBB+ (Stable) assigned
Total	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating derives comfort from extensive experience of ASPL's promoters in the iron ore mining and steel manufacturing business. ASPL is a 50:50 joint venture (JV) between Kolkata-based Atha and Misra groups. The promoters acquired Orissa Manganese & Minerals Limited (OMML; part of Adhunik Group) in June 2018 and demerged the pellet business into ASPL. The Atha and Misra groups operate iron ore mines in Orissa with approval to mine 6.25 million tonnes per annum (mtpa) of iron ore. ICRA notes that the proximity of ASPL's plant to iron ore mines ensures easy availability of raw material and results in low freight costs, which in turn supports its operating profitability. The plant is located 120 km from the mining belt of Orissa. Besides, the company also has access to the railway siding of Adhunik Alloys & Power Limited, which is in the same complex. The rating also reflects ASPL's improved scale of operation and healthy profitability in the current fiscal. ASPL reported 32% revenue growth in 9M FY2019 driven by rise in pellet sales volumes and improved realisation. While the revenue growth is expected to moderate in Q4 FY2019 owing to recent correction in pellet prices, the profitability is likely to remain better than FY2018 levels.

The ratings, however, are constrained by the company's leveraged capital structure at present owing to reliance on unsecured loans to fund the working capital. While the total debt stood at Rs. 358 crore (unsecured loans of Rs. 166 crore) as on January 31, 2019, the gearing stood at 3.2 times. The rating also factors in the sensitivity of the company's profitability to pellet realisations, which have witnessed significant volatility in the past. ICRA believes any adverse movement in pellet and/or steel prices would affect ASPL's cash generating ability, which in turn would exert pressure on its liquidity profile. In the medium-to-long term, the expected benefits from the company's low-cost sourcing of iron ore from its iron ore mining joint venture with an Orissa-based miner would lead to improved profitability. The ratings also factor in the company's exposure to regulatory risks as any unfavourable change in the Government policy may impact iron ore availability and prices.

Outlook: Stable

The 'Stable' outlook reflects ICRA's expectation that ASPL's profitability is likely to be supported by favourable operating conditions and the company will benefit from the extensive experience of its promoters in steel industry. The outlook may be revised to 'Positive' if the company continues to achieve healthy revenue growth and/or low-cost iron ore procurement results in further improvement in profitability. The outlook may be revised to 'Negative' in case of a significant reversal in the industry conditions and/or higher-than-anticipated debt levels.

Key rating drivers

Credit strengths

Improved scale of operations in 9M FY2019 - ASPL reported a 32% growth (annualised) in operating income from Rs. 466 crore in FY2018 to Rs. 462 crore in 9M FY2019 supported by rise in sales volumes from 912,446 metric tonne (MT) to 861,222 MT (26% annualised growth) and increase in average realisation from Rs. 4,152 per MT to Rs. 5,303 per MT. This was driven by improved domestic demand subsequent rally in pellet prices during H1 FY2019. Going forward, while the direct sales realisation would be impacted by the recent correction in pellet prices, ICRA expects ASPL's overall realisation to improve following a decline in share of conversion sales which fetch lower realisation than direct sales. Nevertheless, the margins in case of conversion sales would remain intact. In the medium-to-long term, the expected benefits from the company's low-cost sourcing of iron ore from its iron ore mining joint venture with an Orissa-based miner would lead to improved profitability.

Location-specific advantage of the plant - The company operates a 1.2-million-tonnes-per-annum (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 Adhunik Alloys & Power Limited, which has recently been acquired by Atha and Misra groups. This enables ASPL to procure iron ore via rail, which entails lower freight cost.

Extensive experience of promoters - ASPL is promoted by Kolkata-based Atha and Misra groups. The promoters have around five decades' experience in iron ore mining and steel business. Currently, they operate iron ore mines in Orissa with approval to mine 6.25 million tonnes per annum (mtpa) of iron ore. Besides, they also have steel-making capacity of 0.13 mtpa. 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

Leveraged capital structure - ASPL's capital structure remains leveraged at present owing to elevated debt levels. The net worth was impacted due to losses incurred by OMML prior to its acquisition by the Atha and Misra groups. ASPL relies heavily on unsecured loans to fund its working capital requirement. The unsecured loans stood at Rs. 166 crore as on January 30, 2019. Besides this, the company has recently availed term loans of Rs. 150 crore. The same is to be repaid in 20 equal quarterly instalments starting March 2019. ASPL's total debt stood at Rs. 358 crore as on January 31, 2019. ICRA believes any substantial unanticipated increase in external borrowings would stretch ASPL's capital structure further.

Exposure to price risks - Pellet prices have witnessed significant volatility in 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

ASPL has recently availed term loans of Rs. 150 crore. The overall liquidity position of the company is likely to remain comfortable given that the company's accruals from the business would be higher than its annual debt repayments of ~Rs. 30 crore. Furthermore, ICRA draws comfort from the company's stated intent to repay the unsecured loans only when the term debt is fully paid off or in case of sufficient cash availability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

Orissa Manganese & Minerals Limited (OMML) was incorporated in 1953 and was promoted by Adhunik Group. It has a 1.2-million tonne per annum (mtpa) iron ore pellet plant in Jharkhand and three manganese mines in Orissa. OMML, along with three other Adhunik Group companies viz. Adhunik Metaliks Limited, Adhunik Alloys & Power Limited and Zion Steel Limited, was referred to the Kolkata bench of National Company Law Tribunal (NCLT) in 2017.

OMML's corporate insolvency resolution process (CIRP) was initiated in August 2017 and the NCLT appointed Mr. Sumit Binani as the interim resolution professional (IRP). The initial period of CIRP of 180 days expired on Jan 29, 2018 and the same was extended by 90 days. On April 25, 2018, the committee of creditors approved the resolution plan submitted by Misra and Atha groups (joint-bidders with 50:50 stake) and the same was approved by the NCLT vide its order dated June 22, 2018. The total purchase consideration was Rs. 320 crore. Post the acquisition, the pellet business was demerged into ASPL.

In FY2018, OMML reported net losses of Rs. 2195.7 crore on an operating income of Rs. 466.1 crore. During 9M FY2019, on a provisional basis, ASPL reported net profit of Rs. 92.4 crore on an operating income of Rs. 461.9 crore.

Key Financial Indicators

Standalone financials	FY2018#	9M FY2019^ (P)
Operating Income (Rs. crore)	466.1	461.9
PAT (Rs. crore)	-2195.7	92.4
OPBDIT/ OI (%)	15.4%	22.9%
RoCE (%)	-129.2%	23.9%
Total Debt/ TNW (times)	-1.2	4.6
Total Debt/ OPBDIT (times)	41.6	3.2
Interest coverage (times)	0.2	-
NWC/ OI (%)	-1.0%	15.2%

P – Provisional; ^Balance sheet is as on November 22, 2018; #OMML; 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); NWC: Net Working-Capital; Source: ASPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Mar 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Fund-based limits	Long Term	50.00	-	[ICRA]BBB+ (Stable)	-	-	-	-
2	Term loan	Long Term	150.00	150.00	[ICRA]BBB+ (Stable)	-	-	-	-

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed cash credit	-	-	-	50.00	[ICRA]BBB+ (Stable)
NA	Term loan	FY2019	10%	FY2024	150.00	[ICRA]BBB+ (Stable)

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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.

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