Mahamaya Steel Industries Limited

October 08, 2024

Ratings

Security/ Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	57.00	IVR BBB/Stable (IVR Triple B with Stable Outlook).	-	Assigned	Simple
Total	**57.00 (Rupees Fifty-seven crores only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The rating assigned to the bank facilities of Mahamaya Steel Industries Limited (MSIL) derives comfort from its experienced promoters in the iron and steel industry coupled with strategic location of the manufacturing plant. The rating also positively notes the improvement in scale of operation during the last three fiscal years ended FY2024 [FY refers to the period from April 1 to March 31] albeit thin margins. Further, the rating also considers the comfortable capital structure and adequate debt coverage indicators of the company in FY2024. However, these rating strengths are partially offset by susceptibility of profitability to volatility in raw material prices, exposure to intense competition, significant exposure to group and associate companies and cyclicality in the steel industry.

The stable outlook reflects that MSIL will continue to maintain a stable business performance on account of stable outlook for steel industry.

Key Rating Sensitivities:

Upward Factors:

- Growth in scale of operations with improvement EBITDA margin to above 5%
- Sustenance of the capital structure with improvement in the debt protection metrics.

Downward Factors:

- Sustained moderation in scale of operations with moderation in profitability resulting in dip in EBITDA margin to below 2%

- Any unplanned debt funded capex leading to deterioration in capital structure with moderation in overall gearing to over 1.0x and/or moderation in interest coverage to below 3x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operations under experienced promoters**

MSIL, having commenced operation in the year 1988 has a track record of being engaged in steel manufacturing business for over three decades. Over the years the company has established its presence in the steel manufacturing segment in Raipur, Chhattisgarh. The Managing Director of the company, Mr. Rajesh Agrawal has an experience of over two decades in the steel industry. He is ably supported by the other directors and a team of experienced and qualified professionals to support the smooth operations on a day-to-day basis. Established presence of the promoters helps in building long term relationships with customers and suppliers.

- **Locational advantage**

The manufacturing facility of MSIL is located in Raipur, Chhattisgarh which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron and iron scrap, the key raw materials for manufacturing of the company's products. Accordingly, availability and sourcing of raw materials is not an issue for the company.

- **Improvement in scale of operation albeit thin margins**

The company has witnessed sustained growth in its business performance over the past three fiscal years marked by growth in its total operating income (TOI) coupled with growth in net cash accruals. However, the operating margin of the company remained thin during the aforesaid period mainly due to low value additive nature of the business. The TOI of the company witnessed a CAGR of ~46% during FY2021-FY2024 with a year-on-year (y-o-y) growth of ~21% to Rs.783.83 crore in FY24 from Rs.649.77 crore in FY23. The y-o-y growth in scale of operations is majorly attributable to increase in sales volume despite decrease in average sales realization of structures in FY24. Despite increase in top line, EBITDA margin continued to remain thin and moderated from 2.13% in FY23 to 2.08% in FY24 due to decrease in sales realisations and increased in overhead cost. Nevertheless, on absolute terms, EBITDA increased marginally from Rs.13.81 crore in FY23 to Rs.16.31 crore in FY24. Aided by increase in EBITDA, PAT increased from Rs.5.44 crore in FY23 to Rs.6.72 crore in

FY24. Consequently, Net cash accruals increased from Rs.10.84 crore in FY2023 to Rs.12.45 crore in FY2024.

MSIL reported a top line of Rs.211.03 crore during Q1FY2025 with a marginal dip from Rs.220.20 crore during Q1FY2024 due to subdued demand scenario. PAT also decreased from Rs.1.66 crore during Q1FY2024 to Rs.0.87 crore during Q1FY2025 due to increase in operational overheads. The company’s ability to sustain the growth in scale of operations without compromising in margins will remain a key rating monitorable going forward.

- **Comfortable capital structure and adequate debt coverage indicators**

The capital structure of the company remained comfortable as on the past three account closing dates. Moreover, underpinned by its low reliance on external borrowings, debt protection metrics also remained satisfactory over the past three fiscal years. The leverage ratios remained comfortable marked by long term debt equity ratio of 0.18x and overall gearing ratio of 0.35x as on March 31, 2024, as against a long-term debt equity ratio of 0.22x and overall gearing ratio of 0.42x as on March 31, 2023. The improvement in overall gearing is attributable to reduction in term loan and working capital borrowings as on the account closing date. The debt coverage indicators stood comfortable with ICR of 3.17x in FY24 (4.31x in FY2023). The marginal moderation in ICR in FY24 is due to increase in interest cost owing to increase in utilisation of working capital limits. Moreover, Total debt/EBITDA and Total debt/GCA also improved from 3.13x and 3.99x respectively as on March 31, 2023, to 2.50x and 3.28x respectively as on March 31, 2024.

Key Rating Weaknesses

- **Thin profit margins**

The profit margins of the company remained thin over the years mainly due to its low value additive volume driven business coupled with highly competitive pressure from unorganized players. The EBITDA margin of the company stood thin in the range of ~2%-3% while the PAT margin hovered ~0.80%-1% over the past three fiscals.

- **Profitability susceptible to volatility in raw material prices**

Raw material consumption is the major cost component for MSIL. Since, the prices of key raw materials (sponge iron, pig iron & steel scrap) is highly volatile, it is likely to impact the profit margins of the company. Any increase in raw material prices without a commensurate increase in the prices of finished goods is likely to create pressure on margins.

- **Exposure to intense competition**

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation which limits the pricing flexibility of the players, including MSIL.

- **Significant exposure to Group and associate companies**

MSIL has high amount of exposure towards its group companies in the form of non-current investments. The exposure towards group companies though reduced from Rs.30.05 crore as on March 31, 2023, to Rs.25.98 crore as on March 31, 2024, yet remained high. Any adverse performance/development in group companies can impact the surplus liquidity position and net worth position of MSIL.

- **Cyclicality in the steel industry**

The domestic steel industry is highly cyclical in nature and has witnessed prolonged periods of downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Consolidated

For arriving at the ratings, Infomerics has considered the consolidated financial statement of MSIL and its associate – Abhishek Steel Industries Limited (ASIL; MSIL holds 31.75% shareholding in ASIL). The consolidation is based on common promoters/ management, similar line of business, cash flow fungibility and strong financial linkages between these entities. List of companies considered for consolidated analysis is given at Annexure 4.

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities
Consolidation of companies

Liquidity – Adequate

The liquidity profile of the company is likely to remain adequate marked by sufficient cash accruals vis-à-vis its debt repayment obligation of Rs.2.12 crore in FY2025, Rs.2.32 crore in FY2026 and Rs.1.89 crore in FY2027. The overall gearing stood comfortable at 0.35x as on

March 31, 2024, providing adequate gearing headroom. The current ratio also stood comfortable at 1.71x as on March 31, 2024. The average working capital utilisation for the last twelve months ended July 31, 2024, remained satisfactory at ~58% resulting in sufficient cushion in its working capital limits.

About the Company

Incorporated in 1988, Mahamaya Steel Industries Limited is engaged in the business of running a heavy steel structural mill, steel melting shop and a gas plant at Raipur, Chhattisgarh. The company manufactures heavy and light steel structures such as strips, joists, beams, channels, girders, and railway sleeper bars in various ranges for the construction, automobile, railway, and power industries. The present installed capacity of S.S. Mill is 2,55,000 MTPA, Steel Melting Shop is 2,00,000 TPA and Gas Plant is 900000 Cubic Meter. The gas plant is primarily for captive consumption and the excess is sold output to outside parties. The products are sold under the brand name “MAHAMAYA”.

Financials (Consolidated):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	649.77	783.83
EBITDA	13.81	16.31
PAT	5.44	6.72
Total Debt	43.22	40.84
Tangible Net Worth	134.40	141.26
EBITDA Margin (%)	2.13	2.08
PAT Margin (%)	0.83	0.85
Overall Gearing Ratio (x)	0.42	0.35
Interest Coverage (x)	4.31	3.17

* *Classification as per Infomerics’ standards.*

Status of non-cooperation with previous CRA: CARE Edge Ratings vide its press release dated September 20, 2024, downgraded the rating under issuer not cooperating category due to non-submission of information by the company.

ICRA vide its press release dated April 26, 2024, maintained the rating under issuer not cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1	Term Loan	Long Term	7.00*	IVR BBB; Stable	-	-	-
2	Cash Credit	Long Term	50.00	IVR BBB; Stable	-	-	-

**Rs. 5.81 crore is outstanding as on June 30, 2024*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information and definition of ratings please visit www.infomerics.com.

Press Release

Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	June 2027	7.00*	IVR BBB / Stable
Cash Credit	-	-	-	50.00	IVR BBB / Stable

**Rs. 5.81 crore is outstanding as on June 30, 2024*

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Mahamaya-Steel-8oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis:

Name of the Entity	Consolidation/Combined Approach
Mahamaya Steel Industries Limited	Full Consolidation
Abhishek Steel Industries Limited	Consolidation

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.