Matsyodari Steel and Alloy Private Limited

July 22, 2024

Ratings

Instrument Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities- Term Loans	40.00	IVR BBB-/Positive; (IVR Triple B minus with positive outlook)	IVR BBB-/Positive; (IVR Triple B minus with positive outlook)	Reaffirmed	Simple
Long Term Bank Facilities- Cash Credit	75.00	IVR BBB-/Positive; (IVR Triple B minus with positive outlook)	IVR BBB-/Positive; (IVR Triple B minus with positive outlook)	Reaffirmed	Simple
Short Term Facilities- Bank Guarantee	5.00	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**120.00 (Rupees One hundred and Twenty crore 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

Infomerics Ratings has reaffirmed its rating assigned to the Bank facilities of Matsyodari Steel and Alloy Private Limited (MSAPL).The ratings continue to derive comfort from experienced promoters with established track record, improvement in revenue and profitability, and average financial risk profile. However, these rating strengths remain constrained by moderate and volatile profitability, exposure to inherent cyclicity and highly fragmented steel industry with intense competition.

The positive outlook has been assigned as MSAPL has undertaken further expansion and modernisation project which would result in improvement in overall financial profile, marked by increase in total revenue and profitability.

Key Rating Sensitivities:

Upward Factors

- Significant improvement in scale of operations and profitability leading to improvement in cash accruals on a sustained basis.
- Significant improvement in capital structure and debt protection metrics.
- Improvement in the operating cycle and liquidity and liquidity

Downward Factors

- Substantial decline in operating income and profitability.
- Any substantial stretch in the operating cycle impacting the liquidity of the business**.**

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with an established track record in the industry:

MSAPL was taken over by Omsairam group in 2022. The promoters of the Omsairam group possess vast experience in the manufacturing and trading of steel products. They have an established track record of 21 years in setting up the steel projects. Over the last few years, the group has expanded its presence in state of Maharashtra by acquiring steel manufacturing units. The group is well supported by the team of qualified and dedicated professionals.

Improvement in revenue and profitability due to expansion projects:

After acquisition in FY22, MSAPL had undertaken expansion its TMT bars production capacity from 40,000 MTPA to 150,000 MTPA. The project was completed in phases by

September 2023. This resulted in increased production and revenue during FY23. The company plans to further increase its billet capacity to 198,000 MTPA and TMT bars capacity to 204,000 MTPA through forward integration in FY25.Currently, there are two furnaces with capacities of 30 MT and 10 MT. With the planned capex, the second furnace's capacity will be increased from 10MT to 30 MT. This expansion aims to boost the company's operational scale and profitability. The same is key rating monitorable.

Average financial risk profile and debt protection metrics.

The company's financial risk profile is average marked by moderate net worth, low gearing, and moderate debt protection metrics. The company's debt levels have substantially increased from March 31, 2022 to March 31, 2024 (Prov)due to partially debt funded capex over the years. However, the adjusted tangible net worth (ATNW) of the company improved to Rs.112.03 crore as on March 31, 2023, from Rs.93.45 crore as on March 31, 2022, because of increase in equity share capital and total reserves and surplus as on 31st March 2023. Overall gearing on ATNW of the company stood comfortable at 0.48 times as on March 31, 2022, and continued remain below unity at 0.57 times as on March 31, 2023, due to limited reliance on external debt. Total outside Liabilities/Adjusted Tangible Net Worth (TOL/ATNW) improved to 0.72 times as on March 31, 2023, as against 0.89 times as on March 31, 2022. The moderate debt protection metrics of the company is marked by improved Interest Coverage Ratio (ICR) at 1.92 times in FY 23 as against 1.71 times in FY 22 on the back of lower interest expense in FY 23; and Debt Service Coverage Ratio (DSCR) at 3.18 times in FY 23 improved from 1.68 times in FY22 driven by improved net cash accruals in FY23.

Key Rating Weaknesses

Moderate and volatile profitability

The company's profitability has remained moderate and shown volatility over the past two years. In FY22(refers to period from April 1 to March 31), the PAT was Rs 2 crore, which rose to Rs 9.10 crore in FY23. However, it decreased to Rs 7.65 crore in FY24 (Prov). During FY23, the EBITDA margin reduced to 2.36% due to increased raw material cost and total cost of production. The increase in EBITDA was not in line with the increase in total operating income in FY23. However, the PAT margin improved to 1.78% in FY23 mainly due to receipt of subsidy amount for mega project. The MS Billets and TMT bars manufacturing segment is highly fragmented, given the commoditized nature of the product, and is characterized by intense competition from numerous small organized and unorganized players, which limits the pricing flexibility of manufacturers. The realization depends on the price of raw material (sponge and steel scrap). Although the prices generally move in tandem, there could be short-term mismatches in the raw material and the end-product prices, which could lead to volatility in margins.

Exposure to inherent cyclicality and slowdown in end-user industry

The company's performance remains vulnerable to cyclicality in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. Demand for the products of the company, such as TMT bars, is linked to the capex plans of end-users such as the civil construction, real estate and engineering industries, which also display cyclicality. Slowdown in capex in these segments may impact the performance of the company. Changes in government policy on import/export also affect the industry.

Highly fragmented steel industry with intense competition

The steel manufacturing industry is marked by intense competition throughout the value chain due to low product differentiation. This fierce competition limits the pricing flexibility of the companies involved. The domestic steel industry is also cyclical, which can impact the cash flows of steel manufacturers. Additionally, the company’s operations are susceptible to adverse changes in global demand-supply dynamics.

Analytical Approach: Standalone

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

Liquidity – Adequate

The company has earned gross cash accruals of Rs. 25.36 crore during FY24 (provisional) as against its repayment obligation of Rs.6.94 crore. The company maintains adequate cash and bank balance to meet its liquidity requirement and the current ratio also remained comfortable at 1.93x in FY23. The company's fund-based working capital limits for last 12 months ending May 2024 stood at ~81.00% indicating moderate cushion available in case of adversities.

About the Company

Matsyodari Steel and Alloy Private Limited (MSAPL) based in Jalna (Maharashtra) is engaged in the manufacturing of MS Billets and TMT Bars. Originally established in 1993 by the Mittal family, the company was acquired by the Bharuka family in February 2022. The Bharuka family, who are associated with the Omsairam Group, now owns, and manages MSAPL. The company has a production capacity of 132,000 Metric Tonnes per annum for MS Billets and 150,000 Metric Tonnes per annum for TMT Bars. The manufacturing units are located in Jalna, Maharashtra.

Financials Standalone

(Rs. crore)

For the year ended/ As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	378.78	501.31
EBITDA	15.47	11.85
PAT	2.00	9.00
Total Debt	44.74	63.91
Tangible Net Worth	93.45	112.03
EBITDA Margin (%)	4.08	2.36
PAT Margin (%)	0.53	1.78
Overall Gearing Ratio (x)	0.48	0.57
Interest Coverage (x)	1.71	1.92

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Brickwork Ratings moved the ratings of bank facilities of Matsyodari Steel and Alloy Private Limited in the 'Issuer Not Cooperating' category vide Press Release dated January 06, 2023, due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	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 in 2021-22
					Date (May 16, 2023)	-	-
					IVR BBB-/Positive; IVR A3	-	-
1.	Long Term Bank Facility – Term Loan	Long Term	40.00	IVR BBB-/Positive (IVR Triple B minus with positive outlook)	IVR BBB-/Positive (IVR Triple B minus with positive outlook)	-	-
2.	Long Term Bank Facility – Cash Credit	Long Term	75.00	IVR BBB-/Positive (IVR Triple B minus with positive outlook)	IVR BBB-/Positive (IVR Triple B minus with positive outlook)	-	-
3.	Short Term Bank Facilities-Bank Guarantee	Long Term	5.00	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	-	-

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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).

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Term Loans	-	-	-	2030	40.00	IVR BBB-/ Positive (Triple B minus

						with positive outlook)
Long Term Bank Facilities- Cash Credit	-	-	-	-	75.00	IVR BBB-/ Positive (Triple B minus with positive outlook)
Short Term Facilities- Bank Guarantee	-	-	-	-	5.00	IVR A3 (A Three)

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-Matsyodari-Steel-22july24.pdf

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

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Name of the company/Entity	Consolidation/Combined Approach

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.