Press Release

Madhur Iron & Steel (I) Pvt Ltd

December 14, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	16.71	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	30.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	**46.71 (Rupees forty six crore and seventy one lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Madhur Iron & Steel (I) Pvt Ltd (MISIPL) considers its experienced promoters with more than three decades of experience and its reputed clientele base. The ratings also positively note its healthy business risk profile marked by sustained improvement in operating income and profitability coupled with moderate financial risk profile marked by moderate capital structure and satisfactory debt coverage indicators in FY23. However, these rating strengths are partially offset by susceptibility of profitability to fluctuation in raw material prices, working capital intensive nature of operations and exposure to cyclicality in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure with improvement in overall gearing ratio on a sustained basis

Downward Factors

- Decline in revenue and profitability leading to deterioration in gross cash accruals and debt protection metrics on a sustained basis.

- Moderation in overall gearing ratio to over 2x and/or moderation in interest coverage ratio to below 2x
- Moderation in liquidity position marked by elongation in operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The current promoter, Mr. Virendra Kumar Agrawal has more than three decades of experience in the steel industry by virtue of being director of Shri Ashutosh Structures Pvt Ltd. He looks after the manufacturing, planning and financial aspects in the company along with other directors Mr. Jayant Agrawal (Son of Mr. Virendra Kumar Agrawal) and Mr Rajesh Modh with adequate support from team of qualified professionals.

Reputed clientele and moderate order book position

The company's major clientele includes Kalpataru Projects International Limited (erstwhile Kalpataru Power Transmission Limited) which is major player in domestic T&D sector which contributed ~9% of the total revenue generated by MISIPL in FY23. Beside maintaining strong relation with reputed clients, MISIPL has an unexecuted order book of Rs. 61.95 crore as on October 25, 2023, which is to be executed in next two months, thus providing it short term revenue visibility.

Sustained improvement in operating income and profitability in FY23 and in H1FY24

The total operating income (TOI) grew at a CAGR of ~55% during FY21-FY23 with a y-o-y growth of ~53% in FY22 and subsequently ~57% in FY23. TOI improved to Rs.192.96 crore in FY23 from Rs.80.04 crore in FY21. The growth was due to higher sales volume coupled with better realisation for re-rolled steel products on the back of improved demand. Moreover, sustained rise in trading sales has also aided the growth in TOI. The profitability of the company remained satisfactory and witnessed gradual improvement. EBITDA margin has improved to 6.85% in FY23 as against 5.91% in FY21. Subsequently, The PAT margin has also improved from 2.72% in FY21 to 3.24% in FY23. MISIPL has achieved a revenue of Rs.104.84 crore in H1FY24.

Moderate capital structure and satisfactory debt coverage indicators.

The capital structure of the company remained moderate marked by its moderate leverage ratios. The overall gearing ratio has improved from 1.86x as on March 31, 2022 to 1.74x as on March 31, 2023, on the back of accretion of profits to reserve and scheduled repayment of dropline OD. The debt protection metrices marked by interest coverage remains satisfactory for the past three fiscals. The interest coverage has moderated to 4.11x in FY23 as compared to 4.87x in FY22 on the back of rise in interest and finance charges with increase in bank borrowings. Total debt/GCA and Total debt / EBITDA has improved from 5.21 years and 3.30x as on March 31,2022 to 4.43 years and 2.61x as on March 31,2023 with improvement in profit levels and rise in cash accruals.

Key Rating Weaknesses

Susceptibility of profitability to fluctuation in raw material prices

The price of steel is volatile in nature and the same exposes the company to input price fluctuation risk. Furthermore, billet prices are showing an increasing trend. Hence, the margins are susceptible to the volatility in the input prices.

Working capital intensive nature of operations

The operation of the company is working capital intensive in nature with operating cycle of 62 days in FY23 as compared to 51 days in FY22 and high utilisation in its working capital borrowing limit. The elongation in working capital cycle is due to higher inventory of 88 days in FY23 as compared to 68 days in FY22. The company has order-based model and as on March 31, 2023, it has finished goods in its books, which has reduced in April 2023 after dispatch of order. The receivable days remains between 3-9 days in the past three fiscals ending in FY23 which supports the liquidity profile of the company.

Exposure to cyclicality in the steel industry

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including MISIPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation (Non-Financial Sector)](#)

[Policy of default recognition](#)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near term. The company has earned a gross cash accrual of Rs.7.78 crore in FY23 and is expected to earn a gross cash accrual in the range of ~Rs.11.18-Rs.13.99 crore as against debt repayment obligations in the range of Rs.0.23-0.43 crore during FY24-FY26. However, the average cash credit utilisation of MISIPL remained high at ~98% during the past 12 months ended October 2023 indicating limited liquidity cushion.

About the Company

Madhur Iron & Steel (I) Pvt Ltd (MISIPL) was incorporated in February 2012. Initially the company was operated by one Mr. Madhur Agarwal & family but in April 2018, MISIPL was taken over by Mr. Virendra Kumar Agrawal. MISIPL is engaged into manufacturing & fabrication, re-rolling for all kinds of structural products and is based in Chhattisgarh. The company has fabrication shop, machine shop, physical & chemical testing Labs. The hot re-rollers of steel are required for Transmission Line Towers, Substation Structures (Lattice & Pipe types) and Railway Electrification (OHE structures/TSS & SPS). MISIPL is also involved in trading of all types of steel.

Financials (Standalone):

(Rs. crore)

For the year ended / As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	122.81	192.96
EBITDA	7.60	13.21
PAT	3.45	6.26
Total Debt	25.13	34.47
Tangible Net worth	13.52	19.77
EBITDA Margin (%)	6.19	6.85
PAT Margin (%)	2.81	3.24
Overall Gearing Ratio	1.86	1.74

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	15.00	IVR BBB-; Stable	-	-	-
2.	Dropline OD	Long Term	1.70	IVR BBB-; Stable	-	-	-
3.	OD against FD	Long Term	0.01	IVR BBB-; Stable	-	-	-
4.	Bill Discounting	Short Term	20.00	IVR A3	-	-	-
5.	Channel Finance	Short Term	5.00	IVR A3	-	-	-
3.	Bank Guarantee	Short Term	5.00	IVR A3	-	-	-

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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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	15.00	IVR BBB-; Stable
Dropline OD	-	-	-	1.70	IVR BBB-; Stable
OD against FD	-	-	-	0.01	IVR BBB-; Stable
Bill Discounting	-	-	-	20.00	IVR A3
Channel Finance	-	-	-	5.00	IVR A3
Bank Guarantee	-	-	-	5.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-MadhurIron-dec23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.