Press Release

Mono Steel (India) Limited
January 06, 2025

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	142.00 (Enhanced from Rs.52.00 crore)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	188.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**330.00 (INR Three hundred thirty 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

The reaffirmation of the ratings assigned to the bank facilities of Mono Steel (India) Limited (MSIL) continue to derive comfort from its comfortable capital structure marked by strong net worth base coupled with steady cash flow from solar power plant. The ratings are further supported by its experienced promoters, partially integrated manufacturing facility along with the presence of established brand in the state of Gujarat with strong distribution network. However, these rating strengths remain constrained by susceptibility of its operating margin to volatility in raw material prices and finished goods and average debt protection metrics coupled with exposure to foreign currency fluctuation risk. The ratings further factor in the intense competition in fragmented Billet and TMT market along with exposure to cyclicality in steel industry.

The stable outlook reflects expected steady business performance of the company underpinned by expected strategic cost savings from recent capex supported by its comfortable capital structure.

Key Rating Sensitivities:

Upward factors

- Significant 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 and improvement in debt protection metrics with improvement in interest coverage ratio to over 3x

Downward Factors

- Moderation in operating income and/or profitability impacting the debt protection metrics on a sustained basis
- Any unplanned debt funded capex and/or substantial increase in working capital borrowings leading to impairment in capital structure with overall gearing ratio moderated to over 2x and/or moderation in interest coverage to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Extensive experience of the promoters in the steel industry

MSIL's promoters have long-standing experience in the steel industry. Apart from steel industry, the promoters have business interest in various other sectors like ship breaking, oxygen plant, mining, steel & scrap trading. Presently, Mr. Jaisukhbhai Mavjibhai Shah and Mr. Bhupatbhai Mavjibhai Shah, brothers by relation both having an experience of around three decades in the steel industry are at the helm of affairs of the company.

Operational efficiency by virtue of having partially integrated manufacturing facility

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. MSIL's backward integration to produce billets to meet a part of its raw material requirements for Thermo-Mechanically Treated (TMT) bars manufacturing coupled with 12MW captive power generation capacity utilizing waste heat recovered from the sponge iron kilns, which is meeting ~60% of its power requirements. Access to captive power also plays a vital role in terms of operational integration due to energy intensive nature of manufacturing and leads to cost optimisation. Partially integrated nature of operation provides a competitive edge over other regional re-rollers without backward integrated facilities.

Established brand and marketing arrangements

The company produces ISI marked billets and premium grade ISI marked TMT bars. Products of MSIL are approved by many governments, semi-government, and private organizations. It sells TMT bars under the brand name of 'Mono TMT'. The brand is well established in the state of Gujarat as well as in the nearby regions. Further, the company has developed a well-established marketing network with around 150-200 dealers and distributors to sell TMT bars in the state of Gujarat.

Steady cash flow from solar power plant and low counter party risk

MSIL has established a 10 MW Solar power plant under Government of Gujarat Policy -2009 in FY12 [FY refers to the period from April 1 to March 31]. The company has entered in a Power Purchase Agreement (PPA) in 2010 with Gujarat Urja Vikas Nigam Limited (GUVNL) at rate of Rs.15 per kwh for first 12 years and Rs.5 per kwh for the remaining 13 years which provides satisfactory revenue visibility along with low counter party risk, GUVNL being the off taker. The company has generated steady revenue of ~Rs.24.75 crore in FY2024, from its solar power plant which is sufficient to service its debt obligations and imparts comfort to the credit risk profile of the company. The company has further installed a wind and solar power plant of 6.3 MW and 5.4 MW capacity respectively which is fully operational from February 2024. Going forward, as per the terms of PPA agreement, the revenue from the 10 MW Solar power plant is expected to reduce which would be compensated by cost savings from the newly installed wind and solar power plant form FY25 onwards.

Stable business performance albeit moderation in profitability

In FY24, the company has reported a y-o-y growth of ~2% as the total operating income (TOI) has improved to Rs.1734.07 crore as compared to Rs.1698.18 crore which is mainly driven by higher trading revenue. Post lockdown, driven by the rise in infrastructure and automotive production, steel demand had increased leading to an improvement in sales realization in FY23. However, despite the improvement in sales volume in FY24, owing to the volatility and cyclical nature of the steel industry, the average sales realisation from steel products have moderated. Despite the fluctuations in steel price, MSIL has registered better operating profit as the absolute EBITDA has improved and stood at Rs.44.74 crore as compared to Rs.41.01 crore in FY23 mainly on the back of improved capacity utilisation leading to higher absorption of fixed overheads. However, affected by higher depreciation and finance cost attributable to recently executed wind and solar power plant capex, coupled with higher utilisation of working capital borrowings the PAT margin has dipped to 0.48% in FY24 against 1.28% in FY23. Moreover, the GCA which stood at Rs.29.59 crore in FY24 was sufficient to serve the scheduled debt repayment obligations. The wind and solar power plant which is fully operational from FY25 onwards is expected to boost the profitability of MSIL going forward.

Comfortable capital structure marked by strong net worth base

The capital structure of the company remained comfortable underpinned by its strong adjusted net worth (ATNW) base of Rs.239.98 crore as on March 31, 2024. Owing to higher utilisation of working capital borrowings, coupled with fresh disbursement of term loan for the wind and solar power plant, the debt level of the company has elevated in FY24 leading to marginal moderation in adjusted overall gearing yet the same continued to remain comfortable at 0.63x as on March 31, 2024. (0.40x as on March 31, 2023). Moreover, total indebtedness of the company as reflected by TOL/ATNW also remained comfortable at 1.74x as on March 31, 2024 (1.47x as on March 31,2023). Going forward, with no further planned capex, Infomerics believes the financial risk profile of the company would remain healthy.

Key Rating Weaknesses:

Average debt protection metrics

The debt protection metrics continued to remain moderate though witnessed moderation in FY24 mainly due to elevated debt level and consequent rise in finance charges. Notwithstanding the improved absolute EBITDA, intertest coverage ratio has moderated to 2.23x in FY24 as compared to 3.04x in FY23. Moreover, Total debt/EBITDA and Total debt/GCA have also moderated to 3.37x and 5.10 years respectively as on March 31, 2024 (2.26x and 2.51 years respectively as on March 31, 2023).

Exposure to foreign currency fluctuation risk

MSIL had export sales of Rs.13.61 crore in FY24 (Rs.2.74 crore in FY23) which constituted around 0.78% of the TOI of the company. Also, the company had import purchase to the tune of Rs.342.96 crore in FY 24 (Rs.383.79 crore in FY2023). In FY24, MSIL has also reported forex fluctuation gain of Rs.1.24 crore. As on June 30, 2024, MSIL's unhedged forex exposure stood at Rs.43.76 crore However, in absence of proper hedging policy the company is exposed to foreign currency fluctuation risk.

Susceptibility of operating margin to volatility in raw material prices and finished goods

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. The major raw materials required for manufacturing billets are coal, iron ore and sponge iron while billets are the main raw material for producing TMT bars. MSIL uses both sponge iron and billets as captive consumption for manufacturing of billets and TMT bars respectively. However, it does not have any backward integration for its basic raw materials (iron ore & coal) and has to purchase the same from open market. MSIL mostly procure imported coal from local importers. Moreover, it also procures some part of its billet requirements from the open market. Since, the raw material is the major cost driver and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices.

Exposure to intense competition and exposure to cyclicality in the steel industry

The steel manufacturing and steel trading businesses are characterised by intense competition across the value chain due to low product differentiation which limits the pricing flexibility of the players, including MSIL. Further, the domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including MSIL. Further, the company's operations are vulnerable to any adverse change in the global demand-supply dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Rating Methodology for Trading Companies

Criteria of assigning Rating Outlook

Policy on Default Recognition and Post-Default Curing Period

Financial Ratios & Interpretation (Non-Financial Sector)

Complexity Level of Rated Instruments/Facilities

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by its expected adequate net cash accruals to meet its scheduled debt repayment obligation during FY25-FY27. MSIL also has satisfactory gearing headroom on the back of its satisfactory capital structure. Further, the company also has a comfortable current ratio of 1.47x as on March 31, 2024. The average utilisation of fund-based limits also remained moderate at ~73% during the last twelve months ended October 2024 providing adequate buffer in its working capital limits. However, any unplanned capex or infusion of additional working capital may impact the liquidity position of the company to some extent.

About the Company

Incorporated in 1992, Gujarat based Mono Steel India Limited (MSIL) is engaged in manufacturing of sponge iron, billets and TMT bars with an installed capacity of 1,20,000 MT of sponge iron, 1,00,000 MT of billets and 1,00,000 MT of TMT bars. The company also has a 12MW (6MW each for Waste Heat Recovery System and Coal based thermal plant) captive power plant to support its operation. The steel manufacturing unit of the company is located at Kutch district of Gujarat. Moreover, the company also has a 10MW Solar Power plants located at Una near Diu. The power plant of the company is having a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited for 25 years. The company has further installed a wind and solar power plant of 6.3 MW and 5.4 MW capacity respectively which is fully operational from February 2024. MSIL was promoted by Bhavnagar, Gujarat based Late Mr. Chimanlal Shah and Mr. Bhupatrai Shah along with other family members. Presently, Mr. Jaisukhbhai Mavjibhai Shah and Mr. Bhupatbhai Mavjibhai Shah, brothers by relation both having an experience of around three decades in the steel industry are at the helm of affairs of the company.

Financials of Mono Steel India Limited: Standalone

(Rs. crore)

For the year ended* / As On	**31-03-2023**	**31-03-2024**
	Audited	**Audited**
Total Operating Income	1698.18	1734.07
EBITDA	41.01	44.74
PAT	21.86	8.35
Total Debt	92.62	150.82
Tangible Net worth (Book)	233.01	241.39
Tangible Net worth (Adjusted)	231.60	239.98
EBITDA Margin (%)	2.42	2.58
PAT Margin (%)	1.28	0.48
Overall Gearing Ratio (x) (Adjusted)	0.40	0.63
Interest Coverage	3.04	2.23

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL has continued to classify the rating of MSIL under "ISSUER NOT COOPERATING" category vide its Press Release dated March 18, 2024, due to non-availability of requisite information.

Brickwork Ratings has also continued to classify the rating of MSIL under "ISSUER NOT COOPERATING" category) vide its Press Release dated April 25, 2024, due to non-availability of requisite information to carry out a review.

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. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Oct 09, 2023	July 21, 2022	June 28, 2022	-
1.	Term Loan	Long Term	90.00	IVR BBB+/ Stable	-	-	-	-
2.	Cash Credit	Long Term	52.00	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB+/ Stable	-
3.	Letter Of Credit	Short Term	188.00	IVR A2	IVR A2	IVR A2	IVR A2	-

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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.

Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Term Loan	-	-	Aug 2031	90.00	IVR BBB+/ Stable
Cash Credit	-	-	-	52.00	IVR BBB+/ Stable
Letter of Credit	-	-	-	188.00	IVR A2

Annexure 2: Facility wise lender details: **https://www.infomerics.com/admin/prfiles/len-MonoSteel-jan25.pdf**

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

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