



Press Release

Eagle Steels Rolling Mills Private Limited (ESRMPL)

November 24, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1.	Long Term Fund Based Facility – Cash Credit	39.50	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
2.	Short Term Non Fund Based Facility – ILC/FLC	2.50	IVR A4 (IVR A Four)
	Total	42.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of the entity derives comfort from their experienced promoters, diversified product portfolio, established relationship with clients and suppliers. However, volatility in the steel prices along with high competition and cyclical nature in the steel industry, thin profitability with moderate capital structure and working capital intensive nature of operation are the rating constraints.

Key Rating Sensitivities

Upward Factors

- Substantial improvement in revenue and/or profitability leading to sustained improvement in debt protection metrics.

Downward Factors

- Any decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Further elongation of operating cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter and management team



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Mr Amritlal Shah, have almost three decades of experience in manufacturing of steel rolled products viz. angles, channels, beams etc. Mr Shah along with his son Mr Kunal Shah looks after day to day operations of the company. The promoters are well supported with team of qualified and experienced professionals having requisite experience in their respective field.

Diversified product portfolio

The company has a diversified product portfolio comprising of mild steel angles and high tensile angle, H-Beam, Mild steel and high tensile T angle, Mild steel channel, mild steel I-steel etc. (all sort of structural steel products) along with fabrication and galvanizing for most of the major telecommunications and transmission line projects/units.

Established relationship with suppliers and renowned client base with locational advantage

ESRMPL manufactures all sort of structural steel products by using quality raw materials i.e Billets/ingots which are procured from reputed players of the industry and includes reputed client base in its portfolio (government as well as corporate players) viz. Bajaj Electricals, KEC International Ltd, ION exchange India Ltd., etc. furthermore, the manufacturing facility of ESRMPL is strategically located in the industrial area of Raigad (Maharashtra) which in all is giving the locational advantage to sell its products across Maharashtra region.

Key Rating Weaknesses

Exposed to volatility in steel prices

ESRMPL procures billets from the open market for the production of rolled products which exposes it to the fluctuation in raw material prices. The prices of steel has seen a lot of volatility over the last two years, profitability of the company is susceptible to fluctuations in the prices of its raw material.

High competition and cyclicity in the steel industry

ESRMPL mainly operates in the State of Maharashtra and faces stiff competition from not only established players, but also from the unorganized sector due to low level of product differentiation. Further, the steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices.



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Thin profitability along with moderate capital structure and debt profile

The total operating income of the company declined by ~ 36% in FY20 due to lower realization coupled with plant closure for around 2 months arising out of furnace maintenance. The operating income was also impacted by the head winds arising due to Covid-19 pandemic leading to nationwide lockdown in the month of March, 2020. The EBITDA margin of the company was 3.62% in FY20 (P) as compared to 4.48% in FY19. The company's overall gearing deteriorated from 2.23x in FY19 to 3.39x in FY20 on account of increase in total debt. ESRMPL doesn't have any major term debt borrowing from banks/financial institutions. The company performance in the H1FY21 remained subdued. However, expected to improve substantially in H2FY21 as reflecting from the improved revenue & EBITDA margin trends in the last 3 months ended October, 2020.

Working capital intensive nature of operation

The operations of the company are working capital intensive, where the inventory holding period in FY20 (P) stands at 130 days due to pandemic outbreak in the country and in FY19 it stood with 76 days. However, the piled up inventory will benefit the company in the projected period of FY21 where the raw material prices plunged in Q1FY21 and Q2FY21 as compared to Q4FY20. The operating cycle of the company had been ~ 224 days in FY20 (P) and ~ 114 days in FY19 backed by increase in average inventory and collection days.

Analytical Approach:

Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The liquidity ratios of the company remained modest with the current ratio at 1.32x and the quick ratio at 0.69x as on March 31, 2020 (P). ESRMPL average utilization of the bank limits



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was high with almost 100% over the last 12 months ended on October 31, 2020. The company doesn't have any long term payment obligation.

About the company

Eagle Steels Rolling Mills Private Limited (ESRMPL) was incorporated in 2001 as a partnership firm and was named as Eagle Steels, the same got converted into private limited company in the year 2012 where all the partners of the erstwhile firm namely Eagle Steels became shareholders of the ESRMPL. The company is engaged in the manufacturing of allied steel products with an installed capacity of 50,000 MT p.a.

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)	31-03-20 (Provisional)
Total Operating Income	153.06	134.36	84.54
EBITDA	7.28	6.02	3.06
PAT	1.89	0.32	-2.92
Total Debt	31.33	40.71	51.91
Tangible Net-worth	15.86	16.92	18.61
Ratios			
EBITDA Margin (%)	4.75	4.48	3.62
PAT Margin (%)	1.23	0.24	-3.46
Overall Gearing Ratio (x)	1.75	2.23	3.39

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Brickworks and CARE have moved the rating of Eagle Steels Rolling Mills Private Limited into the Issuer Non-Cooperating (INC) category as per the Press Release dated October 27, 2020 and June 02, 2020 respectively.

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18



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1.	Long Term Fund Based Facility – Cash Credit	Long Term	39.50	IVR BB/Stable Outlook	--	--	--
2.	Short Term Non Fund Based Facility – ILC/FLC	Short Term	2.50	IVR A4	--	--	--

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.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
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Long Term Fund Based Facility– Cash Credit	NA	NA	Revolving	39.50	IVR BB/Stable Outlook
Short Term Non Fund Based Facility – ILC/FLC	NA	NA	-	2.50	IVR A4