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MB Sponge & Power Limited

January 29, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	11.20	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Upgraded and removed from Issuer Non-Cooperating
2	Short Term Bank Facilities	6.10	IVR A4+ (IVR A Four Plus)	Upgraded and removed from Issuer Non-Cooperating
	Total	17.30 (Rupee seventeen crore and thirty lakhs only)		

Details of Facilities are in Annexure 1

Detailed Rationale

Due to inadequate information, Infomerics, in line with the Securities and Exchange Board of India guidelines, had migrated its ratings on the bank facilities of MB Sponge & Power Limited to 'IVR BB; Issuer Non-Cooperating'. However, the management has subsequently started sharing the requisite information necessary for carrying out a comprehensive review of the ratings. Consequently, Infomerics is migrating its ratings to 'IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)' from 'IVR BB; Issuer Non-Cooperating'.

The ratings assigned to the bank facilities of MB Sponge & Power Limited continues to favourably factor in extensive experience of its promoters in the steel industry, strategic location of the plant, healthy capacity utilisation and comfortable gearing and debt protection matrices with low near-term debt repayment obligations. However, these rating strengths are partially offset by small scale of operation with moderation in financial performance in FY20, high exposure to a group company, highly competitive & fragmented nature of industry, working capital intensive nature of operations and cyclicity in the steel industry



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Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth coupled with improved operating margin
- Growth in cash accrual and prudent working capital management

Downward Factors

- Any decline in revenue and operating margin on a sustained basis
- Moderation in the capital structure with overall gearing ratio over 1.5x
- Deterioration in debt protection metrics and Total debt/GCA (years) above 7.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

The promoters have long-standing experience in production and selling of Iron & Steel products such as Sponge Iron, Pig Iron, M.S. Ingot, M.S. Billet, Silico Manganese, Ferro Alloys, Heavy Structural Item, Light Structural Item, TMT Bar etc through various companies. Currently, the day-to-day affairs of the company is managed by Mr. Rohit Agarwal, CEO, second generation entrepreneur having an experience of more than 11 years.

- **Strategic location of the plant**

MBSPL's manufacturing facility is located at Durgapur industrial belt in Burdwan district of West Bengal, which is in close proximity to coal mine of Eastern Coalfield Ltd, Raniganj (W.B.); from where MBSPL procures coal. Further, iron-ore (the main raw material for the company) rich states of Jharkhand and Orissa are also located nearby. Further, Durgapur being an industrial belt has end market for its sponge iron. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plant enjoys competitive advantages in terms of containment of transportation costs and ready market.

- **Healthy capacity utilization**

MBSPL was operated at a healthy capacity of ~95.75% in FY20 improved from ~86% capacity utilisation in FY19 driven by expectation of increase in steel price in the forthcoming period. Thus, resulting in high inventory of INR 20.93 Cr in FY20 (INR 12.60 Cr in FY19)



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- **Comfortable gearing and debt protection matrices with low near-term debt repayment obligations**

The company has a conservative capital structure over the years. The long-term debt equity ratio and overall gearing continued to remain comfortable at 0.13x and 0.55x as on March 31, 2020 (0.15x and 0.59x in March 31, 2019). Further, the company also has adequate debt protection metrics marked by the interest coverage remained satisfactory at 2.63x and Total debt/GCA remained moderate at 6.22x respectively in FY20. Further, the total indebtedness of the company as reflected by the Total Outside Liabilities/Tangible Net worth remained satisfactory at 1.45x as on March 31, 2020. The credit risk profile of the company remained comfortable as the company has low repayment obligation of Rs.0.44 crore in next three years and has no near-term debt raising plans.

Key Rating Weaknesses

- **Small scale of operation with moderation in financial performance in FY20**

The scale of operation of the company remained small with a PAT of Rs.1.71 crore on a total operating income of Rs.98.15 crore in FY20. Small scale of operations restricts the financial flexibility of the company to an extent. Further, total operating income of the company declined from INR 110.27 Crore in FY19 to INR 98.15 in FY20 Crore on account of fall in the demand and prices of Sponge Iron. Currently, the company has achieved a turnover of INR 81.64 crore in 9MFY21. Infomerics expects that the scale of operations of the company will continue to remain around Rs.100 crore in the near term.

- **High exposure to a group company**

The company has receivables and advances to group companies aggregating to Rs.14.34 crore as on FY20(INR 19.78 Cr in FY19) to be receive from its group companies out of which INR 9.54 Cr pertains to Mangala Gauri Ispat Udyog Pvt. Ltd, a group company engaged in manufacturing of Ms billets. Adjusting the same from the net worth, the long-term debt equity ratio and overall gearing remained moderate at 0.24x and 1.02x as on March 31, 2020. Further, the TOL/ Adjusted TNW of the company also stood moderate at 2.68x as on March 31, 2020 after adjusting its exposure to group companies.

- **Lack of adequate backward integration vis-à-vis volatility in prices**

The degree of backward integration defines the ability to minimize price volatility risk and ability to resist cyclical downturns generally witnessed in the steel industry. Raw material and power



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are the major cost driver for MBSPL accounting for ~86% of the total cost of sales in FY20 (90% in FY19), any southward movement of finished goods price with no decline in raw material price result in adverse performance of the company. MBSPL does not have any backward integration for its raw materials and procures the same from outside, exposing the company to price volatility risk. Iron ore pellets and coal are procured from nearby pellet plants and coal mines at competitive rates. The price of iron ore/pellet and coal are volatile in nature and the same exposes the company to input price fluctuation risk for its entire requirement.

- **Highly competitive & fragmented nature of industry**

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants. Further, the company derive around 97% of its sales in FY20 from its top ten customers, indicating a moderately concentrated customer base.

- **Working capital intensive nature of operations**

The operations of the MBPL are working capital intensive as the company needs to procure its main raw materials i.e., iron ore and coal mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to high competition in the industry. Besides, it also needs to maintain raw material inventory (mainly iron ore) for uninterrupted production. The operating cycle of MBSPL stood at 88 days in FY20 owing to high collection period (53 days) and higher inventory days (66 days). However, the company had managed to obtain good credit period, reflected in the average creditor days (30). The average utilisation of its working capital limit of MBSPL remained satisfactory at about 85% during the past 12 months ended on November, 2020.

- **Cyclicality in the steel industry**

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

Liquidity: Adequate

MBSPL's liquidity profile is expected to remain adequate marked by its healthy cash accruals vis a- vis its debt repayment obligations of Rs.0.44 crore in next three years with no near-term debt funded capex plan. The average cash credit utilisation of the company remained at ~85% during the past 12 months ended November, 2020 indicating a moderate liquidity cushion.

About the Company

- MB Sponge & Power Limited (MBSPL), incorporated in September 2004, is engaged in the manufacturing of Sponge Iron and belongs to the one Agarwal family based out of Bardhaman, West Bengal with Mr. Shankarlal Agarwal being the main promoter. The Agarwal family is actively involved in the steel sector from last 30 years through various companies under its fold. All the Promoters and Directors of MBSPL are fully equipped with the knowledge of Iron & Steel Industry and in the activity since 1993.
- MBSPL commenced its operations in March 2006. The company is engaged in the manufacturing of sponge iron. The plant of the company is located at Burdwan which is in close proximity of various steel plants and raw material suppliers with a current installed capacity of 60,000 metric tonne per annum (MTPA).

Financials (Standalone):

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	110.27	98.15
EBITDA	6.22	4.77
PAT	4.06	1.71
Total Debt	17.26	17.14
Adjusted Tangible Net worth	9.62	16.77
EBITDA Margin (%)	5.64	4.86
PAT Margin (%)	3.68	1.74



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For the year ended* / As On	31-03-2019	31-03-2020
Overall Gearing Ratio (x)	1.79	1.02

*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 Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	11.20	IVR BB+ / Stable Outlook	IVR BB; ISSUER NOT COOPERATING* (November 24, 2020)	IVR BB+ /Positive Outlook (September 03, 2019)	-
2.	Overdraft	Short Term	0.40	IVR A4+	IVR A4; ISSUER NOT COOPERATING* (November 24, 2020)	IVR A4+ (September 03, 2019)	
3.	Foreign LC (DP/DA)	Short Term	3.60	IVR A4+	IVR A4; ISSUER NOT COOPERATING* (November 24, 2020)	IVR A4+ (September 03, 2019)	
4.	Inland LG	Short Term	2.10	IVR A4+	IVR A4; ISSUER NOT COOPERATING* (November 24, 2020)	IVR A4+ (September 03, 2019)	

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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 Reaffirmed/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	11.20	IVR BB+ / Stable Outlook
Short Term Fund Based Limits- Overdraft	-	-	-	0.40	IVR A4+
Short Term Non-Fund Based Limits- Foreign LC	-	-	-	3.60	IVR A4+



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(DP/DA)					
Short Term Non-Fund Based Limits-Inland LG				2.10	IVR A4+

