



Press Release

Nav Durga Fuel Private Limited

December 8, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	55.00	IVR BBB (Under Credit watch with developing implications.) (IVR Triple B) (Under credit watch with developing implications)	Re-affirmed (Under Credit watch with developing implications)
Short term Bank Facilities	8.00	IVR A3+ (IVR A Three Plus) (Under Credit watch with developing implications)	Reaffirmed (Under Credit watch with developing implications)
Total	63.00 (Sixty three crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Nav Durga Fuel Private Limited(NDFPL) continues to derive comfort from its experienced promoters, locational advantage, semi-integrated nature of its operations and established brand name of its product. The ratings also continue to consider its comfortable profit margin, conservative capital structure and strong debt coverage metrics. However, these rating strengths are constrained due to susceptibility of its profitability to volatility in prices of its raw materials and finished products, competitive nature of the industry and NDFPL's exposure to the cyclical nature inherent in the steel industry, which is going through a sluggish phase. The ratings also note moderation in its financial performance in FY20 (Prov.) with contraction in its total operating income and profitability mainly due to sharp fall in average sales realisation of Thermo Mechanically Treated (TMT) bars during the fiscal. Infomerics expects, a challenging operating environment due to the Covid-19 pandemic is likely to have a bearing on the company's performance in the near term, to some extent and the demand & price recovery is likely to be small and gradual. The ratings remain under credit watch with developing implications owing to uncertainty in the upward movement in price and demand scenario and



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Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward rating factor

- Growth in scale of operations with further improvement in profitability
- Sustenance in the capital structure with improvement in the debt protection metrics with interest coverage improved to 5x
- Improvement in operating cycle with improvement in liquidity

Downward rating factor

- More than expected deterioration in the scale of operations and profitability
- Unplanned debt laden capex impacting the capital structure
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the steel industry

The promoter of NDFPL has around two decades of experience in trading and manufacturing of iron and steel products. While Mr. Nimish Gadodia (Director) is at the helm of affairs of the company & looking after the business development & finance functions, Mr. Deepak Kumar Sharma looks after the production and purchase functions of the company. Both the promoters have more than a decade of experience in trading and manufacturing of iron and steel products.

Locational advantage

The manufacturing facilities of NDFPL is in Raigarh, Chhattisgarh which is known as steel hub and is in close proximity to various manufacturers of sponge iron, pig iron and iron scrap. Further, sourcing of iron ore from Odisha and coal from nearby coal mines is not an issue. Presence in steel belt reduces the business risk to an extent.

Semi-integrated nature of operations

The company has manufacturing facility for sponge iron, which along with MS scrap serves as a feedstock for manufacturing of MS billets. The manufactured MS billets are used to produce TMT



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bars. Further, to support its operations the company also has a 12MW captive power generation capacity. Semi-integrated nature of operations coupled with proximity to the source of raw materials & end user market provides a competitive edge to the company. Further, presence of coal washery also strengthens the business risk profile of the company.

Established brand

The company markets its TMT bars under the brand name of, 'SRISHTI'. The company has been able to establish its brand over the course of its operations with a focussed advertising campaign to raise brand awareness and recall. The brand is well established in the markets like UP, Chhattisgarh.

Moderation in financial performance albeit comfortable profit margin

The total operating income of the company deteriorated by ~27% from Rs. 447.06 crore in FY19 to Rs. 324.67 crore in FY20 (Prov.) mainly due to decline in selling price of the end product due to the cyclical nature of the industry and reduced trading sales due to lower profit earning opportunities in trading activities. The average selling price of TMT fell from Rs.37,712 per MT in FY19 to Rs. 32,785 per MT in FY20 thereby registering a decline of ~13% which contributed to the lower turnover in FY20. With decline in total operating income, the EBITDA also reduced to Rs.29.67 crore, however, the operating margin improved to 9.82% for FY20 driven by lower input costs and reduced contribution from low margin trading activities in the total revenue. Driven by lower EBITDA, PAT of the company also moderated to Rs.11.49 crore in FY20 (Prov.). NDFPL continues to face low pricing of the product and reduced operations of the manufacturing facility due to Covid in the first couple of months of FY21. Hence the total operating income deteriorated ~16.3% in H1FY21 as compared to H1FY20, however, the company managed to earn EBITDA of Rs.13.17 crore and PBT of Rs.4.24 crore which is comfortable given the challenges being faced in the overall sector. Upward movement in TMT prices is critical for improvement in NDFPL's financial performance going forward.

Satisfactory capital structure with comfortable debt protection metrics

The overall gearing ratio of the company improved from 0.32x as on March 31, 2019 driven by accretion of profit to net worth and remained comfortable at 0.25x as on March 31, 2020 (prov.). The debt protection metrics also continued to remain comfortable with the interest coverage



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ratio at 4.84x, total debt/GCA at 2.38x despite marginal moderation. The total indebtedness of the company also remained comfortable marked by TOL/TNW at 0.52x as on March 31, 2020 (Prov.).

Key Rating Weaknesses

Profitability susceptible to volatility of raw materials and finished products

Raw material consumption is the major cost component for NDFPL as it procures iron ore & coal from open market, in absence of captive mines. Since, the raw material is the major cost driver in the metal sector the prices remain volatile thus impacting the profitability of the company, hence susceptible to fluctuation of price across the value chain.

Intense competition

The steel manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including NDFPL. High share of low margin TMT bar sales constraints margins to an extent.

Cyclical nature of steel industry

Steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including NDFPL. 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. Further, the company's operations are vulnerable to any adverse change in the demand-supply dynamics in the real estate sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

About the Company

Nav Durga Fuel Pvt Ltd (NDFPL), incorporated in February, 2004 was promoted by Mr G.S. Agarwal and the company was taken over by the Gadodia family of Odisha. The company is mainly engaged in manufacturing of sponge iron (90,000MTPA), Billets (79,200MTPA) and TMT



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bar (90,000MTPA). The company also has a coal washery (30,000MTPA) for beneficiation of coal and a fly ash brick manufacturing facility (4,000MTPA). The manufacturing facilities of the company are located at Raigarh, Chhattisgarh. To support its manufacturing operations the company also has a 12 MW captive power plans (7MW waste heat recovery-based power plant and a 5MW AFBC power plant).

Financials: Standalone

(Rs. crore)

For the year ended*/ As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	447.06	324.67
EBIDTA	35.70	29.67
PAT	19.23	13.27
Total Debt	66.09	55.24
Tangible Net worth	205.70	218.97
EBIDTA Margin (%)	7.99	9.14
PAT Margin (%)	4.29	4.08
Overall Gearing Ratio (x)	0.32	0.25

*as per Infomerics standards

Status of non-cooperation with previous CRA: Vide the last press releases dated July 24, 2020 and March 09, 2020, CRISIL and CARE, respectively, have moved the rating to issuer non cooperating category due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. 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
1	Cash Credit	LT	55.00	IVR BBB (Under Credit watch with developing implications)	IVR BBB/ Outlook: Stable Oct. 10, 2019	-	-
2	Bank Guarantee	ST	2.00	IVRA3+ (Under Credit watch with developing implications)	IVRA3+ Oct. 10, 2019	-	-



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3	Letter of Credit	ST	6.00	IVR A3+ (Under Credit watch with developing implications)	IVR A3+ Oct. 10, 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 Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	55.00	IVR BBB (Under Credit watch with developing implications)
Short Term Bank Facilities – Bank Guarantee	-	-	-	2.00	IVRA3+ (Under Credit watch with developing implications)
Short Term Bank Facilities – Letter of Credit	-	-	-	6.00	IVR A3+ (Under Credit watch with developing implications)