February 22, 2023

Trimula Industries Limited: Rating downgraded to [ICRA]D and simultaneously upgraded to [ICRA]C; removed from Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- TL	118.84	118.84	Downgraded to [ICRA]D from [ICRA]B+(Stable) ISSUER NOT COOPERATING and simultaneously upgraded to [ICRA]C; removed from ISSUER NOT COOPERATING category
Fund Based- CC	70.00	70.00	Downgraded to [ICRA]D from [ICRA]B+(Stable) ISSUER NOT COOPERATING and simultaneously upgraded to [ICRA]C; removed from ISSUER NOT COOPERATING category
Non-fund based- BG	52.39	52.39	Downgraded to [ICRA]D from [ICRA]B+(Stable) ISSUER NOT COOPERATING and simultaneously upgraded to [ICRA]C; removed from ISSUER NOT COOPERATING category
Unallocated	8.77	8.77	Downgraded to [ICRA]D from [ICRA]B+(Stable) ISSUER NOT COOPERATING and simultaneously upgraded to [ICRA]C; removed from ISSUER NOT COOPERATING category
Total	**250.0**	**250.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating downgrade notes the irregularity in debt servicing by Trimula Industries Limited (TIL) in the past, while the simultaneous upgrade of the rating factors in the regularisation of debt servicing for the past six months. The latest information suggests that there were instances of delay in repayment of debt obligations in the past, however, the debt servicing has been timely during the last six months.

The rating is further constrained by the weak financial risk profile of the entity, as reflected by negative net cash accruals (NCA) for the past few years, except in FY2022, when the NCA was positive due to the large non-operating income. Weak profitability and high debt position adversely impacted the debt coverage indicators of the entity. The company required continuous support from the promoters to meet its debt-servicing obligations. While the revenue is likely to increase in the current fiscal, ICRA expects the liquidity to remain stretched owing to high debt servicing requirement for which continuous and timely support from promoters will be required and would remain a key monitorable.

Further, the rating remains exposed to the cyclicality associated with the steel industry, which is likely to keep its profitability and cash flows volatile. ICRA, however, takes comfort from TIL's experienced management and established presence in the steel industry. Going forward, the company's ability to improve its liquidity position as well as its profitability will be the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Experienced management and established track record – The promoters have over 15 years of experience in the sponge iron and billet manufacturing business. The company has also established relationships with raw material suppliers (iron ore and coal) and customers of sponge iron and billet.

Credit challenges

Weak financial profile with stretched liquidity position – TIL's financial profile remains stretched owing to net cash losses incurred in the past, except in FY2022, along with high debt levels. Low earnings and high debt levels also resulted in stretched coverage metrics and tight liquidity position, leading to TIL's continued dependence on funding support from the promoters to manage its cash flows and debt servicing. Tight liquidity resulted in a delay in debt servicing in the past. While the company's debt servicing has been timely in the past six months, ICRA expects that continuous and timely support from promoters would be required, given the high debt service obligations, and would remain a key monitorable.

Profitability remains susceptible to volatility in raw material prices – The raw material prices have substantially fluctuated in the past, which kept the company's profitability and cash flows volatile.

Exposure to inherent cyclicality in steel industry and intense competition – The ratings continue to be impacted by the cyclicality inherent in the steel industry, which are likely to keep the margins and cash flows of all players in the steel industry, including TIL, volatile. The sponge/billet business is characterised by intense competition from across the value chain due to low product differentiation and the consequent high fragmentation. Also, low entry barriers limit the pricing flexibility of the participants.

Liquidity position: Poor

TIL's liquidity position would remain poor due to the large interest and principal repayment in the near term relative to its cash flow generation. The cash generation from the business would not be sufficient for the payment of principal and interest on the borrowings. The company would continue to require timely promoter support for the repayments.

Rating sensitivities

Positive factors – The rating can be upgraded if TIL is able to improve its liquidity position, on a sustained basis, with healthy improvement in its profitability level.

Negative factors – The rating may be revised downward if there is a further deterioration in its liquidity position. Also, a decline in profitability, resulting in weak cash accruals on a sustained basis, could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metal Entities Policy on default recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TIL was incorporated in 1996 in Varanasi, Uttar Pradesh. In FY2015, Gulf Ispat Limited, a wholly-owned subsidiary of Gulf Petrochem FZC, acquired a 50% stake in TIL. The company manufactures sponge iron and billets at its manufacturing unit in Singrauli, Madhya Pradesh. It has an installed capacity of 2,10,000 tonnes per annum of sponge iron and 99,000 tonnes per annum of billets. TIL has also installed a captive power plant of 38.5 megawatt (MW), which is waste heat based and coal fired.

Key financial indicators (audited)

TIL – Standalone	FY2021	FY2022
Operating income	202.5	235.8
PAT	-53.1	16.2
OPBDIT/OI	-12.5%	0.3%
PAT/OI	-26.2%	6.9%
Total outside liabilities/Tangible net worth (times)	8.0	7.0
Total debt/OPBDIT (times)	-11.9	630.4
Interest coverage (times)	-0.8	0.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Feb 22, 2023	May 31, 2022	-	Feb 26, 2021	Nov 01, 2019	Aug 21, 2019
1	Term loans	Long term	118.84	110.6	**Downgraded to [ICRA]D & simultaneously upgraded to [ICRA]C**	[ICRA]B+(Stable) ISSUER NOT COOPERATING	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Cash credit	Long term	70.00	69.9	**Downgraded to [ICRA]D & simultaneously upgraded to [ICRA]C**	[ICRA]B+(Stable) ISSUER NOT COOPERATING	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Non-fund based	Long term	52.39	-	**Downgraded to [ICRA]D & simultaneously upgraded to [ICRA]C**	[ICRA]B+(Stable) ISSUER NOT COOPERATING	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
4	Unallocated	Long term	8.77	-	**Downgraded to [ICRA]D & simultaneously upgraded to [ICRA]C**	[ICRA]B+(Stable) ISSUER NOT COOPERATING	-	[ICRA]B+(Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
5	Issuer Rating								[ICRA]BB+ (Stable) withdrawn	[ICRA]BB+ (Stable) Put on notice of withdrawal for 1 month

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund based – cash credit	Simple
Non-fund based	Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2018	NA	FY2032	118.84	[ICRA]C
NA	**Cash Credit**	NA	NA	NA	70.00	[ICRA]C
NA	**Non-fund based**	NA	NA	NA	52.39	[ICRA]C
NA	**Unallocated**	NA	NA	NA	8.77	[ICRA]C

Source: Company

Annexure II: List of entities considered for consolidated analysis

NA

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About ICRA Limited:

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