

February 29, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit*	55.00	SMERA BBB/Stable (Assigned)
Term Loan	3.50	SMERA BBB/Stable (Assigned)
Bank Guarantee	1.50	SMERA A3+ (Assigned)

*Sub Limit is BP/BD under Letter of Credit to the extent of Rs. 2.00 crore, Packing Credit to the extent of Rs. 3.00 crore, Inland/Import Letter of Credit Rs. 30.00 crore and Buyer's credit to the extent of Rs. 11.00 crore

SMERA has assigned ratings of '**SMERA BBB**' (read as **SMERA triple B**) and '**SMERA A3+**' (read as **SMERA A three plus**) to the above mentioned bank facilities of Ahmedabad Strips Private Limited (ASPL). The outlook is '**Stable**'. The ratings derive comfort from the company's long track of operations, experienced management and healthy relations with customers. The ratings also draw strength from the above average financial risk profile marked by good interest coverage ratio, comfortable liquidity and stable profit margins. However, the ratings are constrained by susceptibility of margins to fluctuations in raw material prices and supplier concentration risk.

ASPL is headed by CA Sudhir Goel, and Mr. Satinder Gupta, Director, who possess substantial experience in the steel trading business. At the back of experienced management, ASPL has been able to operate at a moderate scale. The company's operating income has grown from Rs. 291.07 crore in FY2013-14 to Rs. 323.15 crore for FY2014-15.

The revenues of ASPL are well diversified with its top 10 customers bringing in ~59 per cent of the revenues for the period April to December 2015. Harsha Engineers Limited (HEL), a leading manufacturer of bearing cages and preferred supplier to multinationals, contributes 30 percent revenue. ASPL supplies ball bearings and cages to HEL and has more than ten years of business relations with the same.

ASPL's financial risk profile is marked by healthy networth of Rs.76.78 crore as on March 31, 2015 as compared to Rs.64.90 crore as on March 31, 2014. The healthy financial risk profile is marked by low gearing. ASPL has moderate debt protection metrics marked by healthy interest coverage ratio and debt service coverage ratio. Further, ASPL has comfortable liquidity profile supported by ample cushion between net cash accruals against term debt repayment obligation. Additionally, the average working capital utilisation is ~50 per cent.

ASPL has been able to maintain its profit margins mainly on account of increased volume. The production increased from 64750 metric tonne in FY2013-14 to 69696 metric tonne in FY2014-15. The EBIDTA margins stood at 6.89 times for FY2014-15 as compared to 6.39 times for FY2013-14.

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However, the ratings are constrained by susceptibility of margins to raw material price fluctuations. Going forward, revenue is expected to increase on account of additional capacity of 30000 metric tonnes per annum for production of Electric Resistance Welded pipes (ERW pipes).

With around 67 per cent of raw material purchases (Hot Rolled & Cold Rolled Coils) being procured from Essar Steel India Limited, there's high supplier concentration risk. However, ASPL has relation of over 16 years with Essar Steel India Limited.

Outlook: Stable

SMERA believes ASPL will maintain a Stable business profile over the medium term owing to its experienced management and diversified customer base. The outlook may be revised to 'Positive' if the company registers more than expected growth in revenues while achieving improvement in capacity utilisation. Conversely, the outlook may be revised to 'Negative' in case the capacity utilisation deteriorates increasing pressure on margins.

Rating Sensitivity Factors

- Scaling up operations while maintaining margins
- Managing working capital efficiently
- Volatility in commodity prices

About the Company

The Ahmedabad-based ASPL was incorporated in 1997 by CA Sudhir Goel and Mr. Satinder Gupta who possess over three decades of experience in the steel industry. The company manufactures HR/CR strips and also provides processing services such as pickling, cold reduction, annealing among others. For FY2014-15, ASPL reported profit after tax (PAT) of Rs.6.74 crore on operating income of Rs.323.15 crore as compared with PAT of Rs.4.99 crore on operating income of Rs.291.07 crore for FY2013-14.

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