

Press Release

Ahmedabad Strips Private Limited

May 31, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 80.00 crore
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE two**) on the Rs. 80.00 crore bank facilities of Ahmedabad Strips Private Limited (ASPL). The outlook is '**Stable**'.

The Gujarat-based ASPL was incorporated in 1997 by promoters Mr. Sudhir Goel and Mr. Satinder Gupta. The company manufactures HR/CR strips and also provides processing services such as pickling, cold reduction, annealing among others. It has current capacity of 168000 MT per annum, an increase from 96000 MT per annum.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the ASPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The company is engaged in the manufacturing of Hot Rolled/Cold Rolled Strips since 1997. The Directors, Mr. Sudhir Goel and Mr. Satinder Gupta have more than three decades of experience in the steel industry.

The longstanding presence in the industry coupled with quality product has translated into healthy relations with reputed customers as well as suppliers. The company has been catering to Harsha Engineers Limited (HEL) and Thermax Limited for over 15 years.

• Healthy financial risk profile

ASPL has healthy financial risk profile marked by tangible net worth of Rs. 148.04 crore as on 31 March, 2019(P) as against Rs. 131 crore as on 31 March, 2018. This includes unsecured loan of Rs.65.37 crore as on 31 March, 2019(P) considered as quasi equity. The adjusted gearing stood at 0.57 times as on 31 March, 2019(P) as against 0.67 times as on 31 March 2018. The debt of Rs. 84.71 crore mainly consists of term loans of Rs.13.17 crore and working capital borrowings of Rs. 71.54 crore as on 31 March 2019(P). The Interest Coverage Ratio (ICR) stood at 2.04 times in FY2019(P) as against 2.26 times in FY2018. The Debt Service Coverage Ratio (DSCR) stood at 1.48 times for FY2019(P) as against 1.73 times in FY2018. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.66 times as on 31 March, 2019(P). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times as on 31 March, 2019(P) as against 0.18 times as on 31 March, 2018. Going forward, ACUITE expects the financial risk profile to remain healthy in the absence of major debt funded capex plans in the medium term.

• Consistent growth in revenues

The company has reported CAGR of 18 percent for the period under study from FY2015 to FY2019(P). The revenues stood at Rs.627.35 crore in FY2019(P) compared to Rs.507.33 crore in FY2018 and Rs.389.18 crore in FY2017. The improvement is on account of growing demand from the customers.

Further, the company has expanded the production capacity which will reflect scope of more revenue generation. Going forward, Acuite expects the revenues to increase in the medium term on account of increased plant capacity.

Weaknesses

• Working capital intensive operations

ASPL's has moderate working capital cycle marked by Gross Current Asset (GCA) of 103 days in FY2019(P) compared to 123 days in FY2018. The GCA days are mainly dominated by inventory of 48 days in FY2019(P) and debtors of 47 days in FY2018. The average cash credit utilisation for the past six months stood at ~90 percent. Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Competitive and fragmented industry

ASPL operates in a highly competitive and fragmented industry characterized by a large number of unorganized players affecting margins.

Liquidity profiles

The company has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 17.19 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 5.51 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 23.97 crore to Rs. 34.20 crore during 2021-22 against repayment obligation of Rs.2.73 crore to Rs.5.36 crore during the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 103 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.15 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.99 times as on 31 March 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accrual against no major debt repayments over the medium term.

Outlook: Stable

ACUITE believes ASPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	627.35	507.33	389.18
EBITDA	Rs. Cr.	40.49	35.18	35.21
PAT	Rs. Cr.	9.07	9.42	10.09
EBITDA Margin	(%)	6.45	6.93	9.05
PAT Margin	(%)	1.45	1.86	2.59
ROCE	(%)	14.31	14.35	16.94

Total Debt/Tangible Net Worth	Times	0.57	0.67	0.62
PBDIT/Interest	Times	2.04	2.26	2.53
Total Debt/PBDIT	Times	2.09	2.49	1.99
Gross Current Assets (Days)	Days	103	123	141

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Mar-2018	#Cash Credit	Long Term	60.00	ACUITE BBB+ /Stable (Upgraded from ACUITE BBB/Stable)
	Term Loans	Long Term	1.43	ACUITE BBB+ /Stable (Upgraded from ACUITE BBB/Stable)
	Term Loans (proposed)	Long Term	9.00	ACUITE BBB+ /Stable (Assigned)
	Term Loans	Long Term	4.57	ACUITE BBB+ /Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
21-Apr-2017	#Cash Credit	Long Term	55.00	ACUITE BBB (Reaffirmed)
	Term Loans	Long Term	3.50	ACUITE BBB (Reaffirmed)
	Term Loans (proposed)	Long Term	15.00	ACUITE BBB (Reaffirmed)
	Cash Credit Cash Credit	Long Term	5.00	ACUITE BBB (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Assigned)
29-Feb-2016	Cash Credit	Long Term	55.00	ACUITE BBB (Assigned)
	Term Loans	Long Term	3.50	ACUITE BBB (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Assigned)

#sublimit of Cash credit is BP/BD under LC to extent of Rs. 3.00 crore, Packing Credit to extent of Rs 3.00 crore, Inland/Import LC to extent of Rs. 30.00 crore and Buyer's credit Rs. 11.00 crore.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
#Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB+ / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+ / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB+ / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A2 (Reaffirmed)

#sublimit of Cash credit is BP/BD under LC to extent of Rs. 3.00 crore, Packing Credit to extent of Rs 3.00 crore, Inland/Import LC to extent of Rs. 30.00 crore .

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