



SMERA RATINGS LIMITED

Aarti Steels Limited (ASL)**Rating
Rationale****May 05, 2016**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit I*	25.00	SMERA A-/ Stable (Assigned)
Cash Credit II	140.00	SMERA A-/ Stable (Assigned)
Cash Credit III	50.00	SMERA A-/ Stable (Assigned)
Cash Credit IV	15.00	SMERA A-/ Stable (Assigned)
Cash Credit V	70.00	SMERA A-/ Stable (Assigned)
Term Loan I	5.26	SMERA A-/ Stable (Assigned)
Term Loan II	3.81	SMERA A-/ Stable (Assigned)
Term Loan III	5.60	SMERA A-/ Stable (Assigned)
Term Loan IV	2.66	SMERA A-/ Stable (Assigned)
Bank Guarantee	10.00	SMERA A2+ (Assigned)
Inland/Import letter of credit	20.00	SMERA A2+ (Assigned)
Letter of Credit	20.00	SMERA A2+ (Assigned)
Bank Guarantee/Letter of Credit	25.00	SMERA A2+ (Assigned)
Non-fund based Limit	115.00	SMERA A2+ (Assigned)

*Fully interchangeable with working capital demand loan

*includes sub-limit of pre-shipment (packing credit) limit of Rs.0.40 crore and post shipment limit (FDBN/FDBP/FDBD) of Rs.0.40 crore.

SMERA has assigned rating of '**SMERA A-**' (read as **SMERA A minus**) on the Rs.317.33 crore long term (fund based) bank facility and '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs.190.00 crore short term (non-fund based) bank facility of Aarti Steels Limited (ASL). The outlook is '**Stable**'. The ratings are supported by the company's long-standing presence in the steel industry, established market position and diversified customer base. The ratings draw comfort from the conversion contracts with Tata Steel and Jindal Steel and Power Limited. Further, the ratings also factor in the fully integrated operations, healthy financial risk profile marked by easing of debt, comfortable net worth and debt protection metrics expected. Additionally, the ratings also note the adequate liquidity profile marked by sufficient buffer in the cash credit limit along with debt servicing ability expected over the medium term. However, the aforementioned strengths are partially offset by the company's moderate utilisation of capacities driven by sluggish industry demand in the working capital intensive and competitive steel industry.

SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.



SMERA RATINGS LIMITED

Aarti Steels Limited (ASL)

Rating Rationale

Outlook: Stable

SMERA believes ASL will maintain a stable business risk profile over the medium term on account of its established operations, experienced management and healthy relations with customers and suppliers. The outlook may be revised to 'Positive' if the company achieves sustainable improvement in revenues and accruals while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and cash accruals, elongation in the working capital cycle or if the company undertakes debt funded capital expansion.

Rating Sensitivity Factors

- Debt funded capital expansion
- Efficient working capital cycle
- Increasing revenue and profitability

About the Company

The Punjab-based, ASL, established in 1979 was promoted by Mr Mittal and family. The company is engaged in the manufacture of sponge iron (capacity 3,20, 000 TPA), steel ingot/billets (2,30, 500 TPA), ferro alloys (25000 TPA) among others.

ASL has two power plants (40 MW & 50 MW) with manufacturing facilities located in Ludhiana, Punjab and Cuttack, Odisha.

For FY2014–15, the company reported profit after tax (PAT) of Rs.22.25 crore on operating income of Rs.1173.60 crore, as compared with profit after tax (PAT) of Rs.8.89 crore on operating income of Rs.1121.44 crore in FY2013–14. The net worth of the company stood at Rs.339.89 crore as on March 31, 2015 against Rs.323.86 crore a year earlier. The company has also recognised a onetime charge on reserves of Rs.6.22 crore, on account of change in the depreciation method.

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