

Press Release

Aarti Sponge and Power Limited

24th March, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 90.00crore
Long Term Rating	SMERA BBB-/ Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and a short term rating of '**SMERA A3**' (read as **SMERA A3**) to the above mentioned bank facilities of Rs.90.00 crore of **Aarti Sponge and Power Limited (ASPL)**. The outlook is '**Stable**'.

About the company

ASPL was incorporated in May 2004 by members of three families, i.e., Agarwals, Mundras and Mandals. The promoters have over a decade of experience in the area of steel manufacturing. ASPL is engaged in manufacturing of sponge iron with an installed capacity of 90,000 Metric Tonne Per Annum (MTPA) and mild steel (MS) ingots and billets with an annual capacity of 48,000 MT at its manufacturing facilities located at Raipur, Chhattisgarh. ASPL is in the process of expanding MS billet capacity from 48,000 MTPA to 93,000 MTPA by FY18. ASPL uses approximately 60-70% of the sponge iron produced for captive consumption, while the balance is sold outside. The company supplies primarily to rolling mills (manufacturers of long steel products) mostly in Chhattisgarh.

Key rating drivers

Strengths

Experienced Management

ASPL's promoters have over a decade of experience in the area of steel manufacturing. The promoters are also engaged in real estate and infrastructure development primarily through a group company, Aarti Infrastructure and Buildcon Limited. ASPL is managed by Prakash Mandal, Manish Mandal, Rajeev Mundra and Rajeev Agarwal.

Healthy revenue visibility on the back of on-going capacity expansion plans

Owing to the expansion plans of ASPL, the sponge iron production capacity has gone up by 50% from 60,000 MT to 90,000 MT. Furthermore, ASPL is in the process of installing 1 x 15 MT induction furnaces for manufacturing of MS billet which will be completed during FY18. This expansion will increase MS billets capacity from 48,000 MT to 93,000 MT by FY18. ASPL is also installing a 6 MW Waste Heat Recovery Boiler (WHRB) captive power plant which is expected to be operational by the first quarter of FY18. The power requirement of ASPL shall be partly met by the captive power plant which would reduce electricity cost for ASPL. The company has also been allotted mining lease for Iron Ore Mining in Chhattisgarh State and mining is expected to start by Quarter two of FY18, whereby the entire requirements of iron ore of ASPL will be met from own mines which will further improve the profitability of the company as iron ore is one of the major component required for manufacturing of Sponge Iron. SMERA believes that ASPL shall benefit from its expansion plans and a foreseeable revenue visibility is envisaged.

Healthy Financial Risk Profile

ASPL's financial risk profile is healthy marked by net worth of Rs.18.32 crore as on 31 March 2017. The gearing (debt to equity ratio) is low and stood at 0.96 times as on 31 March 2017. The total debt of Rs.71.30 crore mainly includes working capital loans to the tune of Rs.41.98 crore as on 31 March 2017 and long term bank loans of Rs.28.82 crore. The Interest coverage ratio (ICR) is healthy and stood at 2 times for FY2017 as compared to 1.82 times for FY2016.

Weaknesses

Intense competition from small as well as big players in iron and steel industry.

ASPL's profitability is susceptible to volatility in raw material prices & operates in highly fragmented and competitive industry which consists of large number of organised and un-organised players.

Inherent cyclicity of the steel industry

Prospects of the steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz, automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, the steel industry may witness a decline in demand.

Analytical Approach

SMERA has considered the standalone financials of Aarti Sponge and Power Limited (ASPL)

Outlook: Stable

SMERA believes the outlook on ASPL's facilities will remain 'Stable' over the medium term on account of the company's experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if the company achieves a sustained growth in revenues and profit margins while maintaining its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of a steep decline in the company's revenues and profit margins.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	175.67	162.14	198.47
EBITDA	Rs. Cr.	10.53	8.42	12.03
PAT	Rs. Cr.	1.07	2.27	1.95
EBITDA Margin	(%)	5.99	5.20	6.06
PAT Margin	(%)	0.61	1.40	0.98
ROCE	(%)	6.36	6.65	16.97
Total Debt/Tangible Net Worth	Times	0.96	0.75	0.59
PBDIT/Interest	Times	2.00	1.82	2.25
Total Debt/PBDIT	Times	6.42	4.86	3.36
Gross Current Assets (Days)	Days	190	186	141

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

None

Any other information

Not Applicable

Applicable Criteria

- Manufacturing entities- <https://www.smera.in/criteria-manufacturing.htm>
- Trading entities- <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

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	30.50	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.50	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB- / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A3
ILC/FLC/TCBG	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A3
Bill discounting under Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3

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ABOUT SMERA

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