

Press Release

Aarti Sponge and Power Limited

August 17, 2018

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 100.00 Cr. (Enhanced from Rs. 90.00 Cr.)
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 90.00 Cr bank facilities of Aarti Sponge & Power Limited (ASPL). The outlook is '**Stable**'.

Further, Acuite has assigned long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.10.00 Cr. bank facilities of Aarti Sponge & Power Limited. The outlook is '**Stable**'.

About the company

Aarti Sponge & Power Limited (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 MT p. a. and mild steel (MS) ingots and billets with an annual capacity of 93,000 MT (expanded from 48,000 MT in FY18) at its manufacturing facilities located at Raipur, Chhattisgarh. ASPL uses around 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 growth in revenue & improved profitability

On the back of expansion plans (sponge iron & MS billets) undertaken by ASPL, the revenues have scaled up from Rs.175.67 Cr in FY17 to Rs.202.60 cr. in FY18(P). Currently, ASPL utilizes 60-65 percent of its capacity. Further, the company has also installed a 8 MW Waste Heat Recovery Boiler (WHRB) captive power plant owing to which the power cost has reduced from the second half of FY18 and a part of such power requirement of ASPL is met captively. The company has also been allotted mining lease for Iron Ore in Chhattisgarh State. The mining was expected to start by Quarter two of FY18, however, on account of the transportation route which is adjacent to the mine is still under construction, the mining activity has not yet begun. Once the mining activity begins, 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 components required for manufacturing of Sponge Iron.

Further, ASPL has registered an EBITDA of 9.49 percent during FY18 vis-à-vis 5.99 percent during the previous year. This improvement is on the back of savings in power cost and lower raw material costs.

ACUITE believes that ASPL will be able to register healthy revenues on the back of further utilization of capacity and improvement in margins due to availability of raw materials inhouse.

Healthy Financial Risk Profile

ASPL's financial risk profile is healthy marked by net worth of Rs.83.22 Cr as on 31 March 2018(P). The gearing (debt to equity ratio) is low and stood at 1.02 times as on 31 March 2018. The total debt of Rs.85.13 Cr. mainly includes working capital loans to the tune of Rs.55.01 Cr. and term loans of Rs.30.12 Cr (including current portion of long term debt of Rs.4.92 Cr.). The repayment of the term loans have started and going forward, on account of the same, the debt-equity is expected to stay below unity. The promoters have also infused capital during the year to the tune of Rs.4.43 Cr. (Rs.1.21 Cr. in the form of equity capital and Rs. 3.22 Cr. in the form of quasi equity).

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

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

Outlook: Stable

Acuite 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	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	202.60	175.67	162.14
EBITDA	Rs. Cr.	19.22	10.53	8.42
PAT	Rs. Cr.	4.42	1.07	2.27
EBITDA Margin	(%)	9.49	5.99	5.20
PAT Margin	(%)	2.18	0.61	1.40
ROCE	(%)	9.69	6.36	6.65
Total Debt/Tangible Net Worth	Times	1.02	0.96	0.75
PBDIT/Interest	Times	1.89	2.00	1.82
Total Debt/PBDIT	Times	4.43	6.42	4.86
Gross Current Assets (Days)	Days	192	190	186

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

None

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
24-Mar-2018	Cash Credit	Long Term	30.50	ACUITE BBB-/Stable (Assigned)
	Term loans	Long Term	9.50	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Term loans	Long Term	20.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Long Term	4.50	ACUITE A3 (Assigned)
	ILC/FLC/TCBG	Long Term	12.00	ACUITE A3 (Assigned)
	Bank Guarantee	Long Term	0.50	ACUITE A3 (Assigned)
	Bill discounting under Letter of Credit	Long Term	3.00	ACUITE A3 (Assigned)

***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	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3 (Reaffirmed)
ILC/FLC/TCBG	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Reaffirmed)
Bill Discounting under Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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