

Press Release

Aarti Sponge and Power Limited

Feb 05, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded from BBB- /Stable)
Short Term Rating	ACUITE A3+ (Upgraded from A3)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 100.00 Cr. bank facilities of Aarti Sponge & Power Limited (ASPL). The outlook is '**Stable**'.

The ratings upgrade factors in the improvement in the business and financial risk profile of the company. The top-line of the company significantly improved to Rs. 314.23 crore in FY2019 as compared to Rs. 201.93 crore in FY2018 driven by volume growth for both Sponge Iron & M.S. Billet. The improvement in topline coupled with rise in profitability margins has resulted in healthy cash accruals in FY 2019. Also, the ratings upgrade is based on the improvement in business risk profile marked by increase in capacity utilization. The rating continues to reflect the company's long track record of operations and healthy financial risk profile. These strengths are partially offset by their moderate working capital management and inherent cyclicity of the steel industry.

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 15 years of experience in the area of steel manufacturing. ASPL is engaged in manufacturing of sponge iron with an installed capacity of 90,000 MTPA 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.

The company is currently undertaking a project into forward integration of Wire Rod Mill having a capacity of 1,50,000 MTPA in the existing factory premises of the company in Raipur. The production of Wire Rod is expected to start from May, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record of operations and experienced promoters

The company has a long track record of over 15 years in the steel industry. Prakash Mandal, Manish Mandal, Rajeev Mundra and Rajeev Agarwal, who have rich experience in the steel industry since last two decades have promoted the company. The promoters are also engaged in real estate and infrastructure development primarily through a group company, Aarti Infrastructure and Buildcon Limited. Acuite believes that the promoters' extensive experience has helped the company to establish long term relations with customers and suppliers and the same is reflected in

steady growth in the scale of operations.

- **Improvement in revenues and healthy profitability**

The company's revenues increased to Rs. 314.23 crore in FY2019 as compared to Rs. 201.93 crore in FY2018, marking a growth of 56 per cent year over year. The company's revenue has shown an increasing trend in past three years. The increase in revenue is on account of volume growth for both Sponge Iron & M.S. Billet driven by improved capacity utilization coupled with improved realization for M.S. Billet.

Further, the company has registered healthy EBITDA margins of 7.91 percent during FY19 vis-à-vis 8.87 percent during the previous year. The company has 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 is met captively.

Acuite believes the company's scale of operations will continue to grow over the medium term on account of better capacity utilization of existing units and commencement of sale of Wire Rod from May,20 which has a higher realisation per unit. Moreover, operating margins are expected to improve going forward due to availability of raw materials in-house and lower power cost.

- **Comfortable financial risk profile**

The financial risk profile of the company is comfortable marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of the company stood at Rs. 98.25 crore in FY2019 as compared to Rs. 90.55 crore in FY2018. Acuite has considered Rs. 16.10 crore of unsecured loan from related parties as quasi equity as the same has been subordinated to bank facilities. The Debt-equity (gearing) stood comfortable at 0.72 times in FY2019 as compared to 0.76 times in FY2018. The total debt of Rs. 70.86 crore in FY2019 consists of term loan of Rs. 35.93 crore (including current portion of long term debt of Rs.7.47 Cr.) and working capital loans of Rs. 34.93 crore. The interest coverage ratio stood comfortable at 2.69 times as compared to 1.83 times and DSCR stood in line at 1.48 times in FY2019. The Net cash accruals to total debt (NCA/TD) stood at 0.17 times in FY2019 as against 0.08 times in FY2018.

The company is currently undertaking a project into forward integration of Wire Rod Mill having a capacity of 1,50,000 MTPA. The total cost of the project stands at ~Rs. 48.50 crore that will be financed by bank loan of Rs.34.50 crore, Rs.14.00 crore of promoters' contribution in the form of equity shares and unsecured loan. The company has already expended about Rs.42.17 crore which has been funded by term loan of Rs 25.92 crore, Rs.4.25 crore from creditors and promoter contribution of Rs.12.00 crore. The promoters have infused capital to the tune of Rs.11.50 Cr. (Rs.2.50 Cr. in the form of equity capital and Rs. 9.00 Cr. in the form of unsecured loan). The repayment will commence from Dec, 2020 and last installment will be on Sep, 2027.

Despite the current debt funded capex, Acuite believes the company's financial risk profile to remain comfortable notwithstanding the additional debt raised during the year. This is because of the increased accruals from operations which would lead to a higher accretion to reserves.

Weaknesses

- **Moderate working capital management**

The company has moderate working capital operations as evident from Gross Current Asset (GCA) days of 123 days in FY2019 as against 188 days in FY2018. The improvement in GCA days is on account of decrease in inventory days to 89 in FY2019 as compared to 126 days in FY2018. The debtor days improved to 14 days in FY2019 as compared to 32 days in FY2018. However, the company's operations are working capital intensive as demonstrated by the ~85 per cent utilization in the working capital limit for the twelve months ended Nov, 2019. Acuite believes that the company's working capital intensity are likely to remain at similar levels.

• 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.

Rating Sensitivity

- Improvement in scale of operations while maintaining profitability
- Improvement in working capital and significant improvement in financial risk profile
- Higher-than-expected capex leading to deterioration in financial risk profile

Material Covenants

None

Liquidity Profile

The company's liquidity profile is strong marked by moderate net cash accruals as against its debt obligations. The company generated cash accruals of Rs. 11.73 crore in FY19 to repay its maturing debt obligations of Rs.4.92 crore over the same period. Moreover, the company's working capital operations are moderate marked by gross current asset (GCA) of 123 days in FY2019 as against 188 days in FY2018. The current ratio stood at 1.28 times as on March 31, 2019 and the fund-based limit remains utilised at 85 percent over the twelve months ended Nov, 2019. The company maintains unencumbered cash and bank balances of Rs.0.47 crore as on March 31, 2019. Acuite believes that even though the leverage will increase, enhanced cash accruals will boost the liquidity of the company over the medium term.

Outlook: Stable

Acuite believes that the company will continue to benefit from the extensive experience of the promoter. The outlook may be revised to 'Positive' in case of higher-than-expected revenues and profitability, leading to a substantial increase in cash accrual. The outlook may be revised to 'Negative' in case the company fails to achieve the projected revenues and profitability, or in case of deterioration in its financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	314.23	201.93
PAT	Rs. Cr.	7.59	2.65
PAT Margin	(%)	2.41	1.31
Total Debt/Tangible Net Worth	Times	0.72	0.76
PBDIT/Interest	Times	2.69	1.83

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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
11-Nov-2019	Cash Credit	Long Term	30.50	ACUITE BBB-Issuer not co-operating*
	Term Loan	Long Term	9.50	ACUITE BBB-Issuer not co-operating*
	Cash Credit	Long Term	10.00	ACUITE BBB-Issuer not co-operating*
	Term Loan	Long Term	10.00	ACUITE BBB-Issuer not co-operating*
	Cash Credit	Long Term	20.00	ACUITE BBB-Issuer not co-operating*
	Letter of Credit	Short Term	4.50	ACUITE A3 Issuer not co-operating*
	ILC/FLC/TCBG	Short Term	12.00	ACUITE A3 Issuer not co-operating*
	Bank Guarantee	Short Term	0.50	ACUITE A3 Issuer not co-operating*
	Bill Discounting under Letter of Credit	Short Term	3.00	ACUITE A3 Issuer not co-operating*
17-Aug-2018	Cash Credit	Long Term	30.50	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	9.50	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	ILC/FLC/TCBG	Short Term	12.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Reaffirmed)
	Bill Discounting under Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	30.50	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	9.50	ACUITE BBB- /

24-Mar-2018				Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Assigned)
	ILC/FLC/TCBG	Short Term	12.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)
	Bill Discounting under Letter of Credit	Short 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 (Upgraded from BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB/Stable (Upgraded from BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Upgraded from BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Upgraded from BBB-/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Upgraded from BBB-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3+ (Upgraded from A3)
ILC/FLC/TCBG	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Upgraded from A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Upgraded from A3)
Bill Discounting under Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Upgraded from A3)

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About Acuité Ratings & Research:

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