

Press Release
ARS Energy Private Limited

October 08, 2018

Rating Assigned



| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 327.03 Cr. |
| Long Term Rating | ACUITE BBB+ / Outlook: Stable |
| Short Term Rating | ACUITE A2+ |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.327.03 crore bank facilities of ARS Energy Private Limited. The outlook is '**Stable**'.

ARS Energy Private Limited (Previously known as ARS Metals Private Limited) is a Tamil Nadu based company incorporated in the year 1990, promoted by Mr. Ashwani Kumar Bhatia. It operates 60 mega-watt (MW) thermal power plant in Gummidi poondi (Chennai), Tamil Nadu in 2013. The power generated is sold to private parties under group captive system. Further, the company is also engaged in trading of coal. It is a part of ARS group.

About the group:

ARS group is promoted by Mr. Ashwani Kumar Bhatia by incorporating ARS Metals Private Limited, (AMPL) on September 19, 1990. However, in July 2013, AMPL demerged and formed two entities 'ARS Energy Private Limited' and 'ARS Steel and Alloy International Private Limited' (ASAIP) (demerged entity). ASAIP is into manufacturing of ingots, TMT bars and billets at the manufacturing unit located at Gummudippandi.

Key Rating Drivers

Strengths

• Experienced management, and power-purchase agreements

ARS is promoted by Mr. Ashwani Kumar Bhatia, in 1990. The promoter Mr Ashwani Kumar Bhatia has more than three decades of experience in Steel industry. With experience in the steel industry, they diversified into power generation by setting up a 60-MW thermal power plant in the year 2013. The unit was put up under a group captive scheme. ARS entered into power purchase agreement (PPA) with over 30 user industries at various tariff rates ranging Rs.5.3 – 5.9/- per unit; the agreements entered were for a period of three years of March 2016 – March 2019. This gives adequate revenue visibility of about Rs.240.0 crores. Further, ARS also does trading in coal which constitutes about 8 per cent of its revenues in FY2018. Acuite believes that though ARS has regular clientele, however renewal of agreements at the current rates in the upcoming renewal is a key rating sensitivity factor.

• Moderate financial risk profile

Financial risk profile of the company is moderate marked by moderate gearing (Debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), moderate debt protection metrics and debt service coverage ratio (DSCR). Gearing and TOL/TNW stood moderate at 1.41 times and 2.06 times respectively as on 31 March, 2018. Net worth stood at Rs.150.79 crore as on 31 March, 2018 as against Rs.149.78 crore in the previous year. Of the total debt of Rs.212.07 crore as on 31 March, 2018, long term debt constitutes Rs.198.16 crore and short term debt of Rs.13.91 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.02 times and 0.10 times respectively in FY2018. DSCR is moderate at 1.23 times in FY2018 as against 1.18 times in FY2017. ARS generated cash accruals of Rs.21.4 crores in FY2018; ARS's cash accruals are expected in the range of Rs.28.0 – 32.0 crores over the medium term which are adequate to service its debt

obligations of about Rs.11.0 – 13.0 crores. Acuité believes that financial risk profile of the company is expected to improve in the absence of major debt funded capital expenditure and moderate accretions to reserves.

- **Healthy Plant Load factor (PLF)**

The company has reported healthy PFL from the last three years through FY2018. PFL stood at 86.56 percent in FY2018 as against 81.68 percent in FY2017 and 85.66 percent in FY2016. Decline in PFL in FY2017 is due to natural calamities in Tamil Nadu. For the first quarter in FY2019, the company reported revenues of about Rs.65.0 crores at a PLF of 91.26 percent.

Weaknesses

- **Working capital intensive operations**

Operations of the company were working capital intensive which is evident from moderate gross current assets (GCA) at 162 days in FY2018 as against 168 days in FY2017. This is mainly on account of high inventory at 93 days in FY2018 as against 87 days in FY2017. This is due to maintenance of coal for trading business, besides minimum consignment load for import from Indonesia and for smooth flow of power generation operations. About 54 per cent of debtors are realised within 30 days, 42 per cent in 31-60 and balance over 60 days. Acuité believes that with the steady nature of the operations, the GCA continues to be at similar levels and working capital intensive., the operations are expected to be working capital intensive over the medium term.

- **Short term power purchase agreements (PPA) with customers and exposure to group company**

The company signed PPAs with its consumers for a three-year period from March, 2016 to March, 2019 with more than 30 end user entities. Post this, the company has to re-enter / renew / new contracts at revised rates for a period of three years, thus posing revenue / profitability risk. Further, the company sells about 21 percent of the power generated to the group entity 'ARS Steel and Alloy International Private Limited' leading to group company exposure, though it is insulated in terms of regular payments and normal credit period as allowed to others. Acuité believes that, ability of the company to retain the existing customers with longer PPA agreements would be the key rating sensitivity factor over the medium term.

- **Exposure to raw material price fluctuation risk and forex risk**

The annual coal requirement of the plant is around 4.8 lakh MT, of which it imports 80% of total coal required. The company has a MOU with Visa Resource Pte. Ltd (Adityaa Energy Resource Pte Ltd) for 10.50 lakh MT of coal per annum for the period of three years from September 2016 to September 2019 and the coal prices are linked to Indonesian Coal Index. Any adverse moments in the coal prices and currency rate will impact the profitability of the company. Further, the company has no flexibility to pass on the raw material price fluctuations and forex risk to its clients. In the event of revision in the TNEB Tariff, price to be paid by the consumer shall be revised such that, 50% of such revision will be passed on to the customer; revision of tariff by TNEB is key rating sensitivity factor amid rupee depreciation by more than 10 per cent in FY2019 and increasing coal prices . Also, short term agreements with churning of clientele are also exposed the company to revenue and profitability risk.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the AEPL to arrive at this rating.

Outlook: Stable

Acuité believes that AEPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of renewal of agreements with existing customers for a longer period and plant operations at high PLF. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in revenues and profitability owing to renewal of agreements at low tariff rates or any sharp upward trend in raw material prices and forex risk or higher than expected working capital requirements leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 242.04 | 202.85 | 248.74 |
| EBITDA | Rs. Cr. | 50.71 | 57.19 | 81.86 |
| PAT | Rs. Cr. | 1.01 | 20.38 | 16.16 |
| EBITDA Margin | (%) | 20.95 | 28.20 | 32.19 |
| PAT Margin | (%) | 0.42 | 10.05 | 6.50 |
| ROCE | (%) | 8.27 | 9.77 | 24.26 |
| Total Debt/Tangible Net Worth | Times | 1.41 | 1.48 | 1.99 |
| PBDIT/Interest | Times | 2.02 | 2.22 | 2.27 |
| Total Debt/PBDIT | Times | 4.07 | 3.76 | 3.11 |
| Gross Current Assets (Days) | Days | 162 | 168 | 210 |

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/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------|
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 47.66 | ACUITE BBB+/Stable |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 9.38 | ACUITE BBB+/Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 2.21 | ACUITE BBB+/Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 35.70 | ACUITE BBB+/Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 1.42 | ACUITE BBB+/Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 9.79 | ACUITE BBB+/Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 44.16 | ACUITE BBB+/Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 55.09 | ACUITE BBB+/Stable |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 15.62 | ACUITE BBB+/Stable |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 24.72 | ACUITE A2+ |

| | | | | | |
|------------------|----------------|----------------|----------------|-------|------------|
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 1.53 | ACUITE A2+ |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE A2+ |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 43.75 | ACUITE A2+ |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.25 | ACUITE A2+ |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 3.75 | ACUITE A2+ |

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About Acuité Ratings & Research:

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