

Press Release

ARS Energy Private Limited

November 06, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating at '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating at '**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 megawatt (MW) thermal power plant in Gummidipoondi (Chennai), Tamil Nadu since 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.

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' (ASAIPL) (demerged entity). ASAIPL is into manufacturing of ingots, TMT bars and billets at the manufacturing unit located at Gummudipondi.

Analytical Approach

Acuite has considered standalone financials and business risk profiles of ARS to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced Management

ARS was incorporated in 1990 and is promoted by Mr. Ashwani Kumar Bhatia. 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 power purchase agreements with 32 entities operating in Steel, automobile, textile among others. The company has agreements with some of the reputed clients namely Ashok Leyland Limited, Asahi India Glass Limited, Rajapaylam Mills Limited among others. The company has renewed majority of the PPA's in March 2019 for a period of three years with a minimum lock in period of one year. The tariff rates ranges between Rs.5.5 - 6.3/- per unit, thus giving a healthy revenue visibility in near to medium term. Further, ARS is also engaged in trading in coal which constitutes about 8 per cent of its revenues in FY2019 and FY2018. Acuite believes that the company will benefit from the experience of the management and PPA agreements with diversified customers over the medium term.

• Moderate financial risk profile

The financial risk profile continues to remain moderate marked by moderate net worth, debt protection metrics and coverage indicators. The tangible net worth stood at Rs. 154.13 crore as on 31 March, 2019 as against Rs.150.79 crore as on 31 March, 2018. The improvement in net worth is attributable to accretion to reserves over the period. The gearing stood moderate at 1.50 times as on 31 March, 2019 as against 1.41 times as on 31 March, 2018. The total borrowings of Rs. 230.66 crore as on 31 March, 2019 comprises of long term borrowings to the tune of Rs. 187.39 crore, unsecured loans

of Rs. 20.00 crore and short term borrowings of Rs. 23.27 crore. The net cash accruals stood at Rs. 23.88 crore for FY2019 against debt repayment of Rs. 11.69 crore. The net cash accruals are expected to remain in the range of Rs. 27-32 crores in the near to medium term against repayment obligations of Rs. 11.69 crores, thus giving ample cushion in cash accruals and repayment obligations. The interest coverage ratio (ICR) stood moderate at 2.04 times in FY2019 as against 2.02 times in FY2018. The DSCR stood moderate at 1.32 times in FY2019 against 1.23 times in FY2018. The total outside liabilities to tangible net worth stood at 2.03 times as on 31 March, 2019 as against 2.06 times as on 31 March, 2018. The company undertakes routine capex in the range of Rs. 2-4 crores, which are funded by through internal accruals. Acuite believes that the financial risk profile will continue to remain moderate on account of its modest revenue growth and stable operating margins and in absence of any major debt funded capital expenditure.

• **Healthy Plant Load factor (PLF)**

The company has reported healthy PFL from the last three years through FY2019. PFL stood at 85.47 percent in FY2019 as against 86.15 percent in FY2018 as against 81.68 percent in FY2017. For 6MFY2020, the company reported revenues of about Rs.128.04 crores at a PLF of ~90 percent.

Weaknesses

• **Working capital intensive operations**

ARS's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 140-160 days over the last three years through FY2019. The company imports a significant portion of its raw material (Coal) requirements for smooth flow of power generation operations and therefore maintains an inventory of around three months which reflected in inventory days of about 90-110 days over the last three years through FY2019. Further, it allows a credit period of 30-60 days to its customers. Working capital is supported by moderate credit terms from its suppliers and advances from customers. ARS's working capital limit over the last twelve months period was utilized at an average of 75 per cent, while the peak utilization was high at around 92 per cent during the same period. Acuite expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company for regular supply of power and moderate credit terms with the customers.

• **Significant renewal risk**

The company has signed PPAs agreements with 32 entities for the period of two to three years. 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 23 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. Acuite believes that, ability of the company to retain the existing customers with longer PPA agreements would be the key monitorable.

• **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 80-85% of total coal required. The company has a short term MOU with Visa Resource Pte. Ltd (Aditayaa Energy Resource Pte Ltd) for supply of coal 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 FY2020. Also, short term agreements with churning of clientele are also exposes the company to revenue and profitability risk.

Rating Sensitivities

- Significant improvement in revenues profile while maintaining stable profitability margins.
- Timely renewal of agreements and revision of rates with customers.
- Deterioration in working capital or larger than expected debt funded capital leading to deterioration in liquidity.

Material Covenants

- Current ratio to be maintained above 1.33 times.
- TOL/TNW to be maintained below 2.75 times
- Interest coverage ratio to be maintained above 2.00 times.
- Minimum DSCR to be maintained above 1.10 times.

Liquidity position: Adequate

ARS has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.22 to 24 crore during the last two years through 2018-19, while its maturing debt obligations were in the range of Rs.11-12 crore over the same period. The cash accruals of the company are estimated to remain around Rs.27-32 crore during 2020-22 while its repayment obligation is estimated to be around Rs. 11.69 crore. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 157 in FY 2019. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilized at 75 percent during the last 12 months period ended Aug 2019, while the peak utilization was high at around 92 per cent during the same period. The company had unencumbered cash and bank balances of Rs.2.77 crore as on March 31, 2019. The current ratio of the company stands moderate at 1.80 times as on March 31, 2019. The company is likely to incur regular capex of Rs2-4 crore over the medium which is likely to be funded through internal accruals. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accrual and moderate repayments over the medium term.

Outlook: Stable

Acuite believes that ARS will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenues on account of addition of new customers with longer PPA period. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	250.42	242.04	202.85
EBITDA	Rs. Cr.	53.05	50.71	57.19
PAT	Rs. Cr.	3.33	1.01	20.38
EBITDA Margin	(%)	21.19	20.95	28.20
PAT Margin	(%)	1.33	0.42	10.05
ROCE	(%)	8.58	8.27	9.77
Total Debt/Tangible Net Worth	Times	1.50	1.41	1.48
PBDIT/Interest	Times	2.04	2.02	2.22
Total Debt/PBDIT	Times	4.25	4.07	3.76
Gross Current Assets (Days)	Days	157	140	161

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
08-Oct-2018	Term Loan	Long Term	49.87	ACUITE BBB+ / Stable (Assigned)
	Cash Credit	Long Term	9.38	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	35.70	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	1.42	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	9.79	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	44.16	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	55.09	ACUITE BBB+ / Stable (Assigned)
	Cash Credit	Long Term	15.62	ACUITE BBB+ / Stable (Assigned)
	Letter of Credit	Short Term	56.25	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	43.75	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	2.25	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	3.75	ACUITE A2+ (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
Term Loan	Not Applicable	Not Applicable	Not Applicable	49.87	ACUITE BBB+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.38	ACUITE BBB+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	35.70	ACUITE BBB+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.42	ACUITE BBB+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.79	ACUITE BBB+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	44.16	ACUITE BBB+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	55.09	ACUITE BBB+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.62	ACUITE BBB+ / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	56.25	ACUITE A2+ (Reaffirmed)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	43.75	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A2+ (Reaffirmed)

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About Acuité Ratings & Research:

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