Press Release

ARS Energy Private Limited

February 03, 2021

Rating Reaffirmed; Outlook Revised

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.327.03 Cr. bank facilities of ARS Energy Private Limited (AEPL). The outlook has been revised to **'Negative'** from **'Stable'**.

The revision of outlook is on account of decline in revenue and profitability margins followed by slight deterioration in financial risk profile in FY20. The decline in revenues is majorly on account of outbreak of COVID–19 followed by lockdown across the nation, thereby, restricting the movement of goods and people. AEPL majorly supplies power to industries such as Automobile, Textile and Steel. The outbreak of Covid – 19 impacted the production capacities these industries, thus impacting the Plant Load Factor (PLF) of AEPL. However, due to subdued demand for auto and textile sector, the PLF was also impacted in FY2020.
The revenues of the company in FY20 stood at Rs.236.83 Cr. compared to Rs.250.42 Cr. in FY19 and the average PLF stood at 76.04 percent in FY20 as against 85.56 percent in FY19. Further, the revenues decline significantly in 9MFY21 which stood at Rs.98.63 Cr. and the average PLF factor during May – November, 20 period stood low at 48.70 percent. The company's ability to achieve a PPA of ~50 MW with a PLF of ~80% while maintaining its cost of generation in FY2021 will remain key credit monitorables. However, the reaffirmation of the rating in on account AEPL's experienced promoters, signed PPA agreements with reputed clients, comfortable financial risk profile and adequate liquidity position of the company.

About the company

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 in 2013. The power generated is sold to private parties under group captive system. Further, the company is also engaged in trading of coal.

About the Group

The ARS group was incorporated on September 19, 1990 by Mr. Ashwani Kumar Bhatia in the name of ARS Metals Private Limited (AMPL). However, in July, 2013 AMPL was demerged and formed two entities, i.e. 'ARS Energy Private Limited' (AEPL) and 'ARS Steel and Alloy International Private Limited' (ASAPL) (demerged entity). AEPL considered to be the power division of the group and ASAPL is the steel division. ASAPL in majorly into manufacturing of ingots, TMT bars and billets.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations with experienced management**
  ARS Energy Private Limited (formerly known as ARS Metals Private Ltd) is the power division of the ARS Group which was promoted by Mr. Ashwani Kumar Bhatia in the year 1990. Mr. Bhatia has more than three decades of experience in steel industry. Later, in October 2013, the promoter decided to use his experience

to diversify the business into two divisions i.e. Steel & Power and set up a 60-MW thermal power plant in the same year. This led to demerger of its steel division and name of the company ARS Metals Private Ltd was changed to ARS Energy Private Limited (AEPL). The thermal power plant unit put up under a group captive scheme. As on December, 2020; AEPL has power purchase agreement (PPA) with around 25 entities operating in steel, automobile, textile among others which includes some of the reputed players like Ashok Leyland, Asahi India Glass Limited, Rajapaylam Mills Limited to name a few. The agreement entered by the clients is for a period of 1-3 years with a minimum lock-in period of one year and the tariff rates are ranged between Rs.5.5 – 6.3 per unit.

Acuite believes that the company will benefit from the experience of the management along with PPA agreements with diversified customers over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company continues to remain moderate marked by moderate net worth, debt protection metrics and coverage indicators. The tangible net worth stood at Rs.158.97 Cr. as on 31 March, 2020 as against Rs.154.13 Cr. as on 31 March, 2019. The slight improvement in net worth is attributable to accretion to reserves over the period. The gearing of the company improve marginally and stood at 1.31 times as on 31 March, 2020 as against 1.50 times as on 31 March, 2019 on account of decline in working capital borrowings during the same period. The total borrowings of Rs.207.70 Cr. as on 31 March, 2020 comprises of long term borrowings to the tune of Rs.178.14 Cr., unsecured loans from group companies of Rs.20.00 Cr. and short term borrowings of Rs.9.56 Cr. The interest coverage ratio (ICR) deteriorated marginally to 1.91 times in FY220 as against 2.04 times in FY19. The DSCR stood at 1.29 times in FY20 as against 1.32 times in FY19. The total outside liabilities to tangible net worth (TOL/TNW) improved marginally and stood at 1.98 times as on 31 March, 2020 as against 2.03 times as on 31 March, 2019. The company undertakes routine capex in the range of Rs.2-5 Cr. mostly funded through internal accruals.

Acuité believes that the financial risk profile will continue to remain moderate going forward in absence of any major debt funded capital expenditure.

Weaknesses

- **Unprecedented covid-19 disruptions to impact operating performance in near to medium term**

The unprecedented covid-19 pandemic has impacted the power generation industry severely. The impact has been majorly to Independent Power Producers (IPP) who are dependent on manufacturing industries. The outbreak of Covid – 19 was followed by lockdown across the nation, thus restricting the movement of goods and people. The manufacturing units were majorly impact and the demand was impacted as well. AEPL majorly caters to industries which already was struggling with subdued demand in FY2020. AEPL caters to automobile and textile industry majorly. This led to low power consumption and thus PLF for 9MFY2020 was impacted. The impact of PLF along with increasing international coal prices has severely impacted the revenues and profitability margins of AEPL.
The average PLF of the plant in from May, 20 to November, 20 period stood at only 48.70 percent as compared to average PLF of 78.20 per cent same period last year. As the government ease the restrictions, the manufacturing activities slowly improved followed by gradual increase in the PLF and is expected to improve going forward. Further, the company reported revenues of Rs.98.63 Cr. for 9MFY21 led by significant decline in the average PLF of the plant. The company has also provided rebate of Rs.0.25 per unit to its customers during the same period.
In FY20, the revenue from operations was also decline to Rs.236.83 Cr. compared to Rs.250.42 Cr. on account of decline in average PLF. The average PLF in FY20 decline to 76.04 percent as compared to 85.56 percent. This was majorly on account of lower power consumption by the customers working in the automobile and textile industries.

Acuité believes that the unprecedented covid-19 disruptions is expected to impact the revenues and profitability of the company in near to medium term. However, in the absence of achieving PLFs at pre covid levels or in case of further deduction in PPA capacity, the rating will be subsequently downgraded.

- **Working capital intensive operations**

The operations of the company are working capital intensive in nature as reflected by increase in its gross current asset (GCA) days to 196 days in FY20 as against 157 days in FY19. 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. The increase in GCA days was majorly on account of increase in inventory levels to 163 days in FY20 compared to 111 days in FY19 led by year end purchase on inventories. On the other hand, the creditor days of the company also increased from 87 days to 175 during the same period. Working capital is supported moderate credit terms from its suppliers and advances from its customers. However, the average utilization of the fund based working capital limits of the company over the last twelve months stood low at 44.48 percent ended November, 2020.

Acuité believes that the operations of the company to remain working capital intensive on account of high inventory levels maintained by the company for regular supply of power.

- **Renewal risk of the PPA agreements**
  The company currently has signed PPAs agreements with 25 clienteles for the period of one to three years with a total tied up capacity of 41.28 MW from the earliest of 32 clienteles and total tied up capacity of 49.83 MW. In February 2021, the company will re-enter / renew / new contracts at revised rates for a period of one to three years, thus posing renewal risk followed by revenue / profitability risk. Further, the company sells about 23 percent of the power generated to its group entity 'ARS Steel and Alloy International Private Limited' leading to high 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 monitorable.

Rating Sensitivity

- Improvement in average PLF and revenues while maintaining profitability margins
- Timely renewal of agreements and revision of rates with customers
- Deterioration in working capital or larger than expected debt funded capex leading to deterioration in liquidity

Material covenants

- Current ratio to be maintained above 1.33 times
- TOL/TNW to be maintained less than 4.00 percent

Liquidity: Adequate

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.22.81Cr. for FY20 while its maturing debt obligations were Rs.9.52 Cr. for the same period. Despite impact in operations of the company, the liquidity of the company remains adequate to meet its debt obligations through advances received its group entity. Further, the company is also expecting emergency covid loan of Rs.38.00 Cr. from its lenders which will provide additional liquidity. In addition to this, the company has availed the covid-19 moratorium under Regulatory Package announced by Reserve Bank of India. Despite working capital intensive operations, the average fund based bank limit utilization remains moderate at around 44.48 percent in last six months ended November, 2020 which provides additional buffer to the liquidity position of the company. The company maintains unencumbered cash and bank balances of Rs.0.16 crore as on 31, March, 2020 and the current ratio remains moderate at 1.32 times during the same period. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of expected advances from its Group Company and additional funding from its lenders.

Outlook: Negative

Acuité believes that the company's credit profile will be impacted by moderation in the revenues and profitability in FY20 and 9MFY21 led by significant decline in average PLF of the plant. The rating may be downgraded in case of continued moderation in its revenues and further increase in untied capacity of the plant. The outlook may be revised to 'Stable' in case of sustained improvement in revenues led by growth in average PLF of the plant and also increase in PPA agreements with new additions leading to higher tie up in capacity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	236.83	250.42
PAT	Rs. Cr.	2.18	3.33
PAT Margin	(%)	0.92	1.33
Total Debt/Tangible Net Worth	Times	1.31	1.50
PBDIT/Interest	Times	1.91	2.04

Status of non-cooperation with previous CRA (if applicable)
Not Available

Any other information
Not Available

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-November-2019	Term Loan	Long Term	49.87	ACUITE BBB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	9.38	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loan	Long Term	35.70	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loan	Long Term	1.42	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loan	Long Term	9.79	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loan	Long Term	44.16	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loan	Long Term	55.09	ACUITE BBB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	15.62	ACUITE BBB+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	56.25	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	43.75	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	3.75	ACUITE A2+ (Reaffirmed)
08-October-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	25-05-2017	9.60	30-09-2031	49.87	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.38	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	17-06-2017	9.85	30-09-2031	35.70	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	08-06-2017	8.65	30-09-2031	1.42	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	08-06-2017	8.65	30-09-2031	9.79	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	21-03-2017	9.40	30-09-2031	44.16	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Term Loan	16-06-2017	11.00	30-09-2031	55.09	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.62	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)
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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