

## Press Release

ARS Energy Private Limited

June 06, 2022



### Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	106.00	-	ACUITE A4+   Downgraded
Bank Loan Ratings	221.03	ACUITE BB+   Stable   Downgraded   Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	327.03	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.327.03 crore bank facilities of ARS Energy Pvt Ltd. The outlook has been revised to '**Stable**' from '**Negative**'

#### Reason for downgrade

The downgrade in the rating is reflective of significant deterioration in the scale of operations due to decrease in Plant load factor (PLF). The deterioration in AEPL's operating performance and plant load factor is driven by the covid induced lockdown leading to decreased manufacturing activities of AEPL's clientele and temporary closure of the power plant from October 2021 to December 2021 for major repair work in the plant. The revenues of the company stood at Rs.140.34 Cr in FY2021 as against Rs. 236.83 Cr in FY2020 and average PLF stood at 52.66% in FY2021 as against 76.04% in FY2020. The revenue further declined significantly to ~Rs.109.49 Cr in FY2022 (Prov) with an average PLF of ~ 36%. The company also has significant debt repayment obligations while it made losses in FY2021 and FY2022. Acuite believes that such pressure will continue in the medium term on account of slow recovery in the business performance coupled with significant debt repayment obligations. The outlook is however revised from negative to stable on account AEPL's experienced promoters and renewal of PPA agreements with reputed clients for 3 years in FY2023

#### 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.

#### Analytical Approach

Acuite 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 April 2022; AEPL has power purchase agreement (PPA) with around 39 entities operating in steel, automobile, textile among others which includes some of the reputed players like Ashok Leyland, Asahi India Glass Limited, Raju spinning mills 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. AEPL renewed its PPA agreements with its existing and new clients for a period of 3 years in April 2022 with a tied capacity of 63.13 MW. The company as per the PPA agreements is obligated to supply 90% of the contracted demand in the PPA's. Out of the total supply, ARS Steel Pvt Ltd. will draw 25 MW.

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

### Weaknesses

#### Declining sales and profitability

ARS Energy Private Ltd (AEPL) has registered a degrowth of 40.74% in its topline. The revenue stood at Rs.140.34 Cr in FY2021 as against Rs.236.83 Cr in FY2020. Such decline in revenue comes at the back of low manufacturing activities of its clients on account of Covid-19 leading to a decline in Plant Load factor (PLF) in FY2021. The average PLF in FY2021 was 52.66% as against 76.04% in FY2020. The overall tied capacity of the plant however improved from 41.28 MW in FY2020 to 46.84 MW in FY2022 on account of renewal of certain PPA's. AEPL's plant was shut between October 2021 to December 2021 on account of leakage in tube in furnace and radiography test carried out in the power plant. Hence, the average PLF for FY2022 stood at ~35.56%. As of March 2022, AEPL has registered Rs.109.49Cr (Prov) of revenue with a Y-o-Y decline of 23.34% in FY2022.

EBITDA margins of the company declined by 967 bps from 20.50% in FY2020 to 10.83 % in FY2021. Such decline is majorly on account of increase in raw material prices. Tariff charged to the customers is fixed at the time of entering the PPA agreement. AEPL can revise the tariff charged only in the event of revision in prices by TNEB (Tamil Nadu Electricity Board). Hence, the company cannot pass the fluctuations in coal prices to the customers. PAT margins have also declined from 0.92% in FY2020 to -20.36% in FY2021. The EBITDA margin and PAT margins for FY2022 (Prov) remained negative at 7.36% and 49.77%.

Acuite believes that the improvement in Plant load factor and profitability levels will remain key sensitivities factors in the medium term.

#### Intensive working capital operations

The working capital operations of the company remain intensive marked by Gross Current Asset (GCA) days of 275 days in FY2021 as against 196 days in FY2020 driven by elongated debtor and inventory days. AEPL raises bills to the customers on a monthly basis and extends a period of 7 days for payment. Debtor days stood at 41 days in FY2021 as against 21 days in FY2020. As a policy, AEPL maintains inventory sufficient for 60-90 days of operations and trades the coal over and above its requirement. The company in the current year has stopped trading of coal on account of the fluctuations in prices. Inventory days stood at 176 days in FY2021 as against 163 days in FY2020. AEPL opens LC of 180 days for purchase of coal. The creditor days stood at 127 days in FY2021 as against 175 days in FY2020.

Acuite 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.

## Weak Financial risk profile

AEPL has a weak financial risk profile marked by moderate tangible network, high gearing and stretched debt protection metrics. Tangible network of the company stood at Rs.130.40 Cr in FY2021 as against 158.97 Cr in FY2020. Such decline in network is on account of accretion of losses in the reserves. Total Debt of the company stood at Rs.233.30 Cr in FY2021 as against 207.70 Cr in FY2020. Total Debt of the company comprises of Long term Debt of Rs.189.46 Cr in FY2021; Unsecured loan of Rs.20 Cr and short term debt of Rs.23.83 Cr. The gearing of the company stood at 1.79 times in FY2021 as against 1.31 times in FY2020. TOL/TNW stood at 2.24 times as on 31st March 2021 as against 1.98 times in FY2020. Debt protection metrics are stretched with Debt Service Coverage ratio (DSCR) at 0.48 times in FY2021 as against 1.29 times in FY2020. Interest coverage ratio (ICR) stood at 0.67 times in FY2021 as against 1.91 times in FY2020. Debt protection metrics remain stretched in FY2022 on account of operating losses

Acuite believes that the financial risk profile of the company will continue to remain weak in the near to medium term on account of slow recovery in the business and significant debt repayment obligations.

## Rating Sensitivities

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 times

## Liquidity: Stretched

Liquidity of the company remains stretched marked by negative net cash accruals of Rs.7.89 Cr in FY2021 as against maturing debt obligations of Rs. 9.52 Cr. AEPL has taken GECL loans of 38.30 Cr in FY2021 and Rs. 20.79 Cr in FY2022 which has enabled the company to repay its existing debt obligations to a certain extent. Liquidity is expected to remain stretched with negative net cash accruals against maturing debt obligations of Rs. 21.26- 30.29 Cr. The bank limit utilisation of the company stood at 41.28% for 8 months ended February 2022. The company maintains unencumbered cash balances of Rs.1.10 Cr as on 31 st March, 2021 as against 0.16 Cr as on 31 st March 2020.

Acuite believes that the liquidity of the company will remain stretched in the near to medium term on account of significant debt repayment in the near to 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	140.34	236.83
PAT	Rs. Cr.	(28.57)	2.18
PAT Margin	(%)	(20.36)	0.92
Total Debt/Tangible Net Worth	Times	1.79	1.31
PBDIT/Interest	Times	0.67	1.91

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

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Feb 2021	Term Loan	Long Term	1.42	ACUITE BBB+   Negative (Reaffirmed)
	Cash Credit	Long Term	15.62	ACUITE BBB+   Negative (Reaffirmed)
	Term Loan	Long Term	44.16	ACUITE BBB+   Negative (Reaffirmed)
	Cash Credit	Long Term	9.38	ACUITE BBB+   Negative (Reaffirmed)
	Term Loan	Long Term	35.70	ACUITE BBB+   Negative (Reaffirmed)
	Bank Guarantee	Short Term	3.75	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	9.79	ACUITE BBB+   Negative (Reaffirmed)
	Term Loan	Long Term	49.87	ACUITE BBB+   Negative (Reaffirmed)
	Letter of Credit	Short Term	43.75	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	56.25	ACUITE A2+ (Reaffirmed)
06 Nov 2019	Term Loan	Long Term	55.09	ACUITE BBB+   Negative (Reaffirmed)
	Bank Guarantee	Short Term	3.75	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2.25	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	56.25	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	1.42	ACUITE BBB+   Stable (Reaffirmed)
	Term Loan	Long Term	55.09	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	44.16	ACUITE BBB+   Stable (Reaffirmed)
	Term Loan	Long Term	9.79	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	15.62	ACUITE BBB+   Stable (Reaffirmed)
	Term Loan	Long Term	49.87	ACUITE BBB+   Stable (Reaffirmed)
	Letter of Credit	Short Term	43.75	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	47.66	ACUITE BBB+   Stable (Assigned)
	Cash Credit	Long Term	9.38	ACUITE BBB+   Stable (Assigned)
		Long		ACUITE BBB+   Stable (Assigned)
08 Oct 2018	Term Loan	Term	2.21	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	24.72	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	1.53	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	30.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE A4+   Downgraded
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A4+   Downgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.38	ACUITE BB+   Stable   Downgraded   Negative to Stable
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.63	ACUITE BB+   Stable   Downgraded   Negative to Stable
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	56.25	ACUITE A4+   Downgraded
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	43.75	ACUITE A4+   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.36	ACUITE BB+   Stable   Downgraded   Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.18	ACUITE BB+   Stable   Downgraded   Negative to Stable
Canara Bank	Not Applicable	Term Loan	25-05-2017	9.60	09-09-2031	38.99	ACUITE BB+   Stable   Downgraded   Negative to Stable
Bank of Baroda	Not Applicable	Term Loan	17-06-2017	9.85	09-09-2031	28.71	ACUITE BB+   Stable   Downgraded   Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	08-06-2017	8.65	09-09-2031	8.25	ACUITE BB+   Stable   Downgraded   Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	21-03-2017	9.40	09-09-2031	35.90	ACUITE BB+   Stable   Downgraded   Negative to Stable

State Bank of India	Not Applicable	Term Loan	16-06-2017	11.00	09-09-2031	43.10	ACUITE BB+   Stable   Downgraded   Negative to Stable
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.16	ACUITE BB+   Stable   Downgraded   Negative to Stable
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	8.07	ACUITE BB+   Stable   Downgraded   Negative to Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.99	ACUITE BB+   Stable   Downgraded   Negative to Stable
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	7.53	ACUITE BB+   Stable   Downgraded   Negative to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	9.78	ACUITE BB+   Stable   Downgraded   Negative to Stable

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### About Acuité Ratings & Research

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