

Press Release

ARS Energy Private Limited

December 01, 2022

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	106.00	-	ACUITE D Downgraded
Bank Loan Ratings	110.09	ACUITE C Downgraded	-
Bank Loan Ratings	110.94	ACUITE D Downgraded	-
Total Outstanding Quantum (Rs. Cr)	327.03	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE D**' (read as **ACUITE D**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE D**' (read as **ACUITE D**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on Rs.216.94 Cr. bank facilities of ARS Energy Pvt Ltd (AEPL).

Further, Acuite has also downgraded the long-term rating to '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.110.09 Cr. bank facilities of ARS Energy Pvt Ltd (AEPL).

Rationale for rating downgrade

The rating downgrade in AEPL reflects the overdrawings in its cash credit account and devolvement of its letter of credit (LC), leading to the classification of the account as Non-Performing Asset (NPA) in September 2022 as per banking sources. The rating also factors in the intensive working capital operations and poor 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.

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).

Acuite believes that the company will benefit from the experience of the management along the company's established track record of operations

Weaknesses

Overdrawing and devolvement of working capital limits

The liquidity profile of the company is stretched marked by the overdrawings in the cash credit facilities along with the devolvement in the letter of credit in September 2022.

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.

Rating Sensitivities

No overdrawings and devolvement in the working capital limits

Material covenants

Current ratio to be maintained above 1.33 times.

TOL/TNW to be maintained less than 4.00 times

Liquidity: Poor

The company has a poor liquidity position marked by the overdrawings and devolvement in the working capital limits and classification of account as Non-performing asset as per banking sources. The company generated negative cash accruals of Rs.7.89 crore in FY21. The company maintains unencumbered cash and bank balances of Rs.1.10 crore as on March 31, 2021 and the current ratio also stood moderate at 1.81 times as on March 31, 2021.

Outlook:

Not applicable

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)

None

Any other information

The company has been classified as Non-performing asset as on September 2022 as per the written feedback from received from lenders. However, the company has continued to submit No Default Statement for the month of October and November stating no defaults leading to misrepresentation of details to Acuite.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jun 2022	Term Loan	Long Term	35.90	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Letter of Credit	Short Term	56.25	ACUITE A4+ (Downgraded from ACUITE A2+)
	Term Loan	Long Term	1.18	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Cash Credit	Long Term	9.38	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Cash Credit	Long Term	15.63	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	8.07	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Bank Guarantee	Short Term	2.25	ACUITE A4+ (Downgraded from ACUITE A2+)
	Proposed Bank Facility	Long Term	2.36	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	28.71	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	9.78	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Letter of Credit	Short Term	43.75	ACUITE A4+ (Downgraded from ACUITE A2+)
	Term Loan	Long Term	38.99	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	10.16	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	43.10	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	8.25	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Term Loan	Long Term	1.99	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
	Bank Guarantee	Short Term	3.75	ACUITE A4+ (Downgraded from ACUITE A2+)
	Term Loan	Long Term	7.53	ACUITE BB+ Stable (Downgraded from ACUITE BBB+ Negative)
03 Feb 2021	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)
	Term Loan	Long Term	55.09	ACUITE BBB+ Negative (Reaffirmed)
	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)
		Long		

06 Nov 2019	Term Loan	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)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.25	ACUITE D Downgraded
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.75	ACUITE D Downgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.38	ACUITE D Downgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.63	ACUITE D Downgraded
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	56.25	ACUITE D Downgraded
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	43.75	ACUITE D Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.36	ACUITE C Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.18	ACUITE C Downgraded
Canara Bank	Not Applicable	Term Loan	May 25 2017 12:00AM	9.60	Sep 9 2031 12:00AM	Simple	38.99	ACUITE D Downgraded
Bank of Baroda	Not Applicable	Term Loan	Jun 17 2017 12:00AM	9.85	Sep 9 2031 12:00AM	Simple	28.71	ACUITE D Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Jun 8 2017 12:00AM	8.65	Sep 9 2031 12:00AM	Simple	8.25	ACUITE C Downgraded
Punjab National Bank	Not Applicable	Term Loan	Mar 21 2017 12:00AM	9.40	Sep 9 2031 12:00AM	Simple	35.90	ACUITE C Downgraded
State Bank of India	Not Applicable	Term Loan	Jun 16 2017 12:00AM	11.00	Sep 9 2031 12:00AM	Simple	43.10	ACUITE C Downgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.16	ACUITE D Downgraded
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.07	ACUITE D Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.99	ACUITE C Downgraded
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.53	ACUITE C Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.78	ACUITE C Downgraded

Contacts

Analytical	Rating Desk
Deepti Bhandarkar Analyst-Rating Operations Tel: 022-49294065 deepti.bhandarkar@acuute.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuute.in

About Acuité Ratings & Research

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