

Press Release

Agarsen Re-Rollers Private Limited

December 20, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	63.02	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	63.02	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 63.02 crore bank facilities of Agarsen Re-Rollers Private Limited. The outlook is '**Stable**'.

Rationale for the rating

The rating takes into account the sound business position of the group as reflected from its growing revenue trend coupled with management's long track record in the sector and healthy financial profile characterized by comfortable debt protection metrics. The rating also draws comfort from the adequate liquidity position of the company. The rating factors in reputed client profile of the group supported by healthy and sustained volume growth in production, coupled with increase in realizations and increasing demand in the industry, providing revenue visibility over the medium term. These strengths are however, partly offset by the cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices. The rating reflects Acuite's opinion that the group's revenues and accruals will be supported by its repeat order inflow and execution supported by expanded capacity buoyed by government thrust in the industry.

About Company

Incorporated in September 1989, Agarsen Re-rollers Private Limited (ARPL) is a Raipur (Chhattisgarh) based company involved in manufacturing of MS Pipes and MS Strips. There was change in management in 2016, wherein Mr. Vikas Goyal and Mr. Kamal Kishore Agarwal took over the business from Mr. Supras Chandra Golecha and family. With the recent capex incurred in FY 2022 and FY 2023 to the tune of Rs. 45 Cr, the company ARPL has increased its installed capacity of MS pipes from 72,000 MT to 1,50,000 MT and of MS Strips from 30,000 MT to 59,800 MT to meet the surge in demand in this vertical. Their manufacturing facilities are located in the mineral rich state of Chhattisgarh.

About the Group

The group company Sadhguru Pipes LLP, incorporated in 2006 is also engaged into manufacturing of MS Pipes and GI Pipes. The plant is located in Chhattisgarh.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Agarsen Reroller Private Limited (ARPL) and Sadhguru Pipes LLP together referred to as the 'Agarsen Group' (AG). The consolidation is in the view of common management, intercompany holdings, operational linkages between the entities and a similar line of business.

Key Rating Drivers

Strengths

Experienced management and established relationship with customers

The group is promoted by the Agarwal family and Goyal family of Raipur and currently the operations are managed by Mr. Kamal Kishore Agarwal and Mr. Manoj Goyal. The directors are well experienced and have been in the industry for more than three decades. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers. Further, the clientele consist of majorly reputed players in the iron and steel industry- Sambhv Sponge Power Private Limited (Acuite A-/Stable/A2+) which mitigates counterparty credit risk. Acuité derives comfort from the long experience of the management and believes this will benefit the group going forward, resulting in steady growth in the scale of operations.

Improvement in scale of operations supported by strategic location of the plant

The group clocked in strong revenue performance in spite of inflationary cost-push during FY22. The group reported revenue of Rs.588.10 Cr in FY2022 as compared to Rs. 336.15 Cr in the previous year. Further, the group has already achieved Rs. 255.52 Cr. till September 2022 (Prov). The sound business profile, together with regular, yet calibrated, capex undertaken over the last year for capacity expansion, will help the group scale up its revenues in H2FY23 as well as improve operational efficiencies along with volume-driven cost efficiencies. The increase in volume (especially in MS pipes) backed by improvement in price realisations led to a significant revenue growth of around 75 per cent in FY 2022. Acuité believes the group will post strong revenue growth in FY23 on account of strong execution of outstanding orders backed by ramp up of existing capacities.

Moreover, the plants are located in Urla Industrial area of Raipur, Chhattisgarh which is in close proximity to various steel plants & sources of Raw materials (Coal, Billets, etc). Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw material and the end market results in controlled transportation costs.

Above average financial risk profile

The group's above average financial risk profile is marked by modest networth base, moderate gearing and comfortable debt protection metrics. The tangible net worth of the group improved to Rs.45.58 crore as on March 31, 2022 from Rs.33.48 crore as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans of Rs.18.50 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the group increased to 1.37 as on March 31, 2022 as compared to 0.68 as on March 31, 2021, on account of increase in external debt to back the capex undertaken and also to support the upscale of operation. The company ARPL had undertaken capex to increase the capacity of MS Strips and MS pipes, mainly funded by debt and internal accruals. The Total outside Liabilities/Tangible Net Worth

(TOL/TNW) stood at 1.98 times as on March 31, 2022. The surge in earnings in FY2022 supported by high accruals led to improvement of the debt protection metrics of the group with Interest Coverage Ratio at 3.97 times as on March 31, 2022 and the Debt Service Coverage Ratio at 2.42 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.16 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the group will remain healthy with commissioning of the additional capacities. Further, with accretion to reserve and repayment of debt obligation, gearing is also expected to improve over the medium term.

Weaknesses

Volatility in raw material prices

Raw material costs account for ~93 per cent of total production cost; therefore even a slight variation in rates of raw materials drastically impacts the profitability. The operating margin moderated to 2.63 per cent in FY2022 from 2.81 per cent in FY2021, owing to rise in cost of raw materials, particularly during Q4FY22 on account of increase in steel price issues. The major raw materials are Billet (70%), zinc ingot and coking coal and the prices of all these materials witnessed a significant spike. This is also mitigated to an extent as the company is able to pass on the fluctuations in raw material prices albeit with a time-lag. However, the PAT margin of the company increased to 1.27 per cent in FY2022 from 0.97 per cent in FY2021, owing to better absorption of depreciation and interest cost.

Acuité expects, with the recent removal of export duties on steel products, the raw material (billet) prices are likely to be cheaper. Hence, with the enhancement of capacities the group is expected to reap the benefits of economies of scale and enjoy operating efficiencies to mitigate the risks arising from the cyclical nature of steel industry to some extent.

Exposure to inherent cyclicity in and competitive & capital intensive nature of steel sector

The company's performance remains vulnerable to cyclicity in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. While there has been a significant push by the government on steel-intensive sectors such as railways and infrastructure, any sustained downturn in demand will adversely impact performance of steel companies. The competitive intensity in the Indian steel sector is significant owing to presence of large steel companies. Also, steel imports from other countries, mainly China, add to the competition. Additionally the domestic steel sector is fairly capital intensive.

Rating Sensitivities

- Sustenance in revenue growth
- Improvement in profit margins
- Elongation in working capital cycle

Material Covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by healthy net cash accruals which stood at Rs.9.75 Cr in FY 2022 as against long term debt repayment of only Rs. 1.70 Cr during the same period. Prudent working capital management and moderate reliance on external borrowings ensures average fund based limit utilization for the past six months ended October, 2022 standing at ~ 74.93 per cent. Further, the current ratio also stood comfortable at 1.40 times as on March 31, 2022. The cash and bank balances of the group stood at Rs.11.56 Cr as on March 31, 2022, of which Rs 11.39 Cr is retained as current account balance. The working capital management of the group is efficient as reflected by Gross Current Assets (GCA) of 56 days as on March 31, 2022 as against 52 days as on March 31, 2021. This is supported by low debtor

period of 15 days as on March 31, 2022 as compared to 14 days in as on March 31, 2021, since the group majorly sells to the reputed clientele and follows an efficient collection mechanism. Further, the inventory holding also improved to 22 days on 31st March 2022 as compared to 34 days as on 31st March 2021 as the group maintains 20-25 days of inventory to mitigate the price volatility. Acuité believes that going forward the group will continue to maintain adequate liquidity position owing to steady accruals backed by improvement in earnings led by high demand and efficient collection mechanism.

Outlook: Stable

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business position, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the Group's financial risk profile or delay in completion of its projects or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	588.10	336.15
PAT	Rs. Cr.	7.49	3.25
PAT Margin	(%)	1.27	0.97
Total Debt/Tangible Net Worth	Times	1.37	0.68
PBDIT/Interest	Times	3.97	3.07

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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
09 Jul 2021	Term Loan	Long Term	3.89	ACUITE BB- (Withdrawn and Issuer not co-operating*)
	Proposed Bank Facility	Long Term	9.11	ACUITE BB- (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	3.00	ACUITE BB- (Withdrawn and Issuer not co-operating*)
28 Jan 2020	Term Loan	Long Term	3.89	ACUITE BB- (Issuer not co-operating*)
	Cash Credit	Long Term	3.00	ACUITE BB- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	9.11	ACUITE BB- (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	33.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.31	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	26.71	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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