

Press Release

Asansol Alloys Private Limited

June 23, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.32.52 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.32.52 Cr bank facilities of Asansol Alloys Private Limited. The outlook is '**Stable**'.

The rating on AAPL takes cognizance of company's comfortable business risk profile marked by significant growth in the scale of operations coupled with improved profitability margins. Further, the rating derives comfort from the long operational track record, experienced management and strong debt protection indicators of the company. These strengths are, however, constrained by low networth base, moderate working capital management and the fragmented nature of the ferro alloys industry.

About the company

Incorporated in 2007, Asansol Alloys Private Limited (AAPL) is a West Bengal based company engaged in the manufacture of silico manganese. Currently, the company is headed by the promoter directors Mr. Joginder Singh and Mrs. Kamaljit Kaur and the second generation promoter Mr. Tejpal Singh. The company has its manufacturing facility located in Asansol, West Bengal and it has expanded its installed capacity to 17,500 MTPA from 6,840 MTPA. The additional capacity was installed in Mar, 2020 but the production commenced in the month of May, 2020. The company primarily sells its product in the states West Bengal, Bihar, Jharkhand and also exports through local merchant exporters.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of AAPL to arrive at the rating.

Key Rating Drivers

Strengths

- Long experience of the promoters and established relationship with customers & suppliers**

The promoter directors of the company Mr. Joginder Singh and Mrs. Kamaljit Kaur have been engaged in the ferro alloy industry over a decade. This has helped the company in establishing relationship with its suppliers and customers which helps in bagging advance orders. Acuité believes that the promoters' extensive understanding and expertise of the business and healthy relations with customers and suppliers will continue to support the business going forward.

- Healthy business risk profile buoyed by capacity expansion**

The company has achieved revenues of Rs.101.14 Cr in FY2021 (Provisional) as compared to Rs.31.92 Cr in FY2020 and Rs.38.79 Cr in FY2019, thereby registering a 2 year CAGR of 60.93 per cent. The growth in revenue is on account of increase in installed capacity from 6,840 MTPA to 17,500 MTPA in March, 2020. The expanded capacity became operational from May, 2020. The company has achieved net revenues of Rs.26.79 crore in the current fiscal till May '21 which is higher than the revenues in the corresponding previous period.

The operating margin of the company increased to 10.11 per cent in FY2020 as compared to 6.15 per cent in the previous year. The PAT margins stood at 3.84 per cent in FY2020 as against 2.66 per cent as on FY2019. Even with a decrease in the average realization in FY20, the increase in profitability levels is due to reduction in expenses. The average price realization of the product in FY21 is bullish as compared to FY20 due to thrust in the iron and steel industry. The RoCE levels stood at a comfortable level of 13.71 per cent in FY2020 as against 17.89 per cent in FY2019. Acuité believes sustainability in the growth in scale of operations while maintaining

profitability margin will remain a key monitorable.

- **Strategic location of the plant**

AAPL's manufacturing facility is located at Salanpur, Bardhaman, West Bengal which enables easy access to suppliers of manganese ore and coke district and is in close proximity to Durgapur industrial belt in West Bengal. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plant enjoys competitive advantages in terms of containment of transportation costs and ready market.

Weakness

- **Average financial risk profile**

The company's average financial risk profile is marked by low albeit improving networth, moderate gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.9.18 Cr as on 31st March, 2020 from Rs.7.95 Cr as on 31st March, 2019. Gearing of the company stood moderate at 1.74 times as on 31st March, 2020 as compared to 0.81 times as on 31st March, 2019. The deterioration in gearing levels is because the company borrowed long term debt from bank for capacity expansion. The debt of Rs.16.00 Cr comprises of long term borrowings of Rs.9.12 Cr, working capital borrowing of Rs.6.21 Cr, unsecured loans of Rs.0.48 Cr and current portion of long term debt repayment of Rs.0.20 Cr as on 31st March, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.38 times as on 31st March, 2020 as against 1.32 times as on 31st March, 2019. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 4.65 times and Debt Service coverage ratio at 2.93 times as on 31st March, 2020. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times as on 31st March, 2020. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

- **Highly fragmented and intensely competitive industry**

The Ferro Alloys industry is marked by the presence of a large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large-sized players in the said industry. The presence of a large number of players has a direct impact on pricing, restricts bargaining power having an adverse impact on margins.

Rating Sensitivity

- Sustainability in their growth in scale of operations while maintaining profitability margin
- Improvement in capital structure
- Further elongation in working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.5.89 Cr in FY2021 (provisional) as against a long term debt repayment of Rs.0.20 Cr over the same period. The company had net cash accruals of Rs.1.85 Cr in FY2020 as against a CPLTD of Rs.0.17 Cr. The current ratio stood moderate at 1.10 times as on 31st March, 2020 as compared to 0.76 times as on 31st March, 2019 due to high amount of payable for expenses for the company. The company's working capital intensity is reflected from Gross Current Assets (GCA) of 144 days in FY2020 as compared to 57 days in FY2019 but it is expected to remain at moderate levels over the medium term. The fund based limit remained utilized at 90 percent over the six months ended April, 2021. The cash and bank balances of the company stood at Rs.0.14 Cr in FY2020 as compared to Rs.2.25 Cr in FY2019. The company availed a loan moratorium as well as a Covid loan of Rs.3.20 Cr. Acuité believes that going forward the company's liquidity position will improve due to steady net cash accruals.

Outlook: Stable

Acuité believes that the outlook on AAPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and healthy business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its capital structure, hence expanding its networth base. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to further deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	31.92	38.79
PAT	Rs. Cr.	1.23	1.03
PAT Margin	(%)	3.84	2.66
Total Debt/Tangible Net Worth	Times	1.74	0.81
PBDIT/Interest	Times	4.65	6.92

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Term Loan	14-Feb-2019	9.15%	30-Jun-2025	9.97	ACUITE BBB-/Stable (Assigned)
WCDL	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB-/Stable (Assigned)
WCTL-GECL	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.85	ACUITE BBB-/Stable (Assigned)
WCTL-GECL	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE BBB-/Stable (Assigned)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-/Stable (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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