Press Release

Anjani Steels Limited

March 19, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 156.00 crore
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs. 134.50 crore bank facilities of ANJANI STEELS LIMITED (ASL). The outlook is **'Stable'**.

Acuité has also assigned the short-term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs. 21.50 crore bank facilities of ANJANI STEELS LIMITED (ASL).

Anjani Steels Limited (ASL) was incorporated in the year 1994 by Mr. Shiv Dhari Yadav and Mr. Sanjay Kumar Yadav as a private limited company and was later reconstituted as a public limited company in 2007. The company is engaged in manufacturing of steel and alloy steel castings, ingots, billets and all kinds and sizes of re-rolled sectioned viz flats, angles, rounds, squares, hexagons, octagons rail joints, to name a few. The company set up an integrated steel plant at Raigarh (Chhattisgarh), consisting of sponge iron division, induction furnace division & a 12 MW thermal power plant. The integrated steel plant has a capacity of 108,000 MT for manufacturing billets and sponge iron and 125,000 MT for manufacturing of TMT bars as on March 31, 2019.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Anjani Steels Limited (ASL) to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Incorporated in the year 1994, Anjani Steels Limited is promoted by Mr. Shiv Dhari Yadav and Mr. Sanjay Kumar Yadav. The company has been in the business of steel since 1996-97 and the products currently manufactured are billets, being further used for production of long products, i.e. TMT bars, used to cater to the growing demands of various sectors i.e. power sector, infrastructure construction, steel and cement plant construction, commercial & residential houses, among others.

ASL is led by Mr. Shiv Dhari Yadav and Mr. Sanjay Kumar Yadav, who hold experience of more than two decades in the aforementioned line of business. The extensive experience of the promoters is reflected through the established relationships with the company's customers and suppliers. The key customers of the company have no major concentration in revenues. On the back of the stable and repetitive orders by the various customers, the revenues of the company have seen a compound annual growth rate (CAGR) of about 30 per cent over the past three years through FY2019 at Rs. 438.48 crore in FY2019. Further, the company has an average order book of about Rs. 30 crore on rolling-basis (monthly/ bi-monthly) which shows adequate revenue visibility.

Further, the company has booked revenue of Rs. 325.92 crore for the nine months ended as on 31st December, 2019. ASL is expected to continue to leverage its well established relationships with reputed clients and suppliers. Acuité believes that ASL will continue to benefit from its established track record of operations and experienced management and their long standing relationships with reputed customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by strong net worth, moderate gearing, debt protection metrics and coverage indicators.

The net worth of ASL is strong, estimated at around Rs. 124.68 crore as on 31st March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy profitability.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.13 times as on March 31, 2018 and 1.06 times as on March 31, 2017, respectively. The leverage levels continue to remain low at around 1.04 times as on March 31, 2019. The company incurred capex of Rs. 32.87 crore over the last three years to add a new product segment; wire rod. The total debt of Rs. 129.43 crore as on 31 March 2019 comprised of long-term borrowings of Rs. 29.28 crores and working capital borrowings of Rs. 100.15 crores. ASL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.15.15 crores to Rs. 16.80 crores.

The revenues of the company remained stable at Rs. 438.40 crore during 2018-19, while its operating margins remained healthy, though deteriorated from 9.21 per cent in FY2018 to 7.21 per cent in FY2019. The healthy profitability levels coupled with moderate debt levels have led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.11 per cent and 1.98 times, respectively.

Acuité believes that the financial risk profile of the company is expected to remain moderate on back of absence of any major debt funded capex plan and healthy accretion to reserves.

- **Healthy growth in revenue**

The total operating income of the company increased from Rs. 317.97 crore in FY18 to Rs. 438.48 crore in FY19 on account of improvement in capacity utilization leading to increase in volume of sales which was accompanied by improvement in sales realization. Further, the company has booked revenue of Rs. 325.92 crore for the nine months ended as on 31st December, 2019. However, EBITDA margin deteriorated to 7.21 per cent in FY19 as against 9.21 per cent on account of increase in cost of sales. PAT margin improved from 1.10 per cent in FY18 to 1.55 per cent in FY19 due to decrease in interest cost. With the addition of a new product, i.e. wire rod, which is relatively higher margin segment, the operating profitability margins are expected to improve over the medium term.

Weaknesses

- **Working capital intensive nature of operations**

ASL's operating cycle reduced, yet remained elongated at 153 days during FY19 as against 226 days in FY18. Due to integrated nature of operations, the company maintains inventory of coal, iron ore, billets and sponge iron for 3-4 months as reflected by inventory days of 111 days in FY19 as against 140 days in the previous year. On the other hand, the company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of around 7-8 days to its customers. ASL's working capital limits over the last ten months period were utilized at an average of 93.53 per cent ended January 2020, while the peak utilization was high at around 98 per cent during the same period.

Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company due to integrated nature of operations.

• **Highly competitive and cyclical nature of industry**

Steel is a highly competitive industry due to low entry barriers that results in intense competition from the large number of organized and unorganized players present in the market. However, the risk is mitigated to an extent on account of established track record of operations. The material cost is the primary cost driver accounting for ~80 per cent of total sales. Further, the company's revenue and profitability are susceptible to the inherent cyclicality in the steel industry and volatility in steel prices.

Rating Sensitivity

- Significant improvement in its working capital management.
- Further decline in profitability levels thereby impacting company's debt coverage indicators.
- Decline in average utilization levels of working capital limits.
- Debt-funded capex leading to deterioration of financial risk profile.

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 14.17 crore for FY2019 as against debt obligations of Rs. 6.00 crore for the same period. The cash accruals of the company are estimated to remain around Rs. 15.15 crore to Rs. 18.77 crore during FY2020-22 against repayment obligations ranging from Rs. 2.00 crore to 8.75 crore, during the same period. ASL's working capital operations are intensive marked by gross current asset (GCA) of 153 days. High GCA days have led to moderately higher reliance on external borrowings indicated by average utilization of ~93.53 per cent of the working capital limits over the last ten months ended January 2020. The company maintains unencumbered cash and bank balances of Rs. 0.21 crore as on 31 March, 2019. The current ratio stood at 1.43 times as on 31 March, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuité believes that ASL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	438.48	317.97
PAT	Rs. Cr.	6.80	3.48
PAT Margin	(%)	1.55	1.10
Total Debt/Tangible Net Worth	Times	1.04	1.13
PBDIT/Interest	Times	1.98	1.66

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

Not Applicable

Any other information
Not Applicable

Applicable Criteria

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

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

Rating History (Up to previous 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	82.50	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB-/ Stable (Assigned)
Term Loan-I	31.01.2014	Not Applicable	31.01.2022	11.25	ACUITE BBB-/ Stable (Assigned)
Term Loan-II	31.12.2018	Not Applicable	31.12.2025	13.25	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE A3 (Assigned)

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